



AUDIT COMMITTEE

MONDAY, 25 MARCH 2019

10.00 am COMMITTEE ROOM - COUNTY HALL, LEWES

MEMBERSHIP - Councillor Colin Swansborough (Chair)
Councillors Gerard Fox (Vice Chair), John Barnes, Matthew Beaver,
Bob Bowdler, Philip Daniel and Daniel Shing

A G E N D A

- 1 Minutes of the previous meeting (*Pages 3 - 10*)
- 2 Apologies for absence
- 3 Disclosures of interests
Disclosures by all members present of personal interests in matters on the agenda, the nature of any interest and whether the member regards the interest as prejudicial under the terms of the Code of Conduct.
- 4 Urgent items
Notification of items which the Chair considers to be urgent and proposes to take at the appropriate part of the agenda. Any members who wish to raise urgent items are asked, wherever possible, to notify the Chair before the start of the meeting. In so doing, they must state the special circumstances which they consider justify the matter being considered urgent.
- 5 External Audit Plan 2018/19 (*Pages 11 - 28*)
Report by the Chief Finance Officer.
- 6 External Audit Plan for East Sussex Pension Fund 2018/19 (*Pages 29 - 44*)
Report by the Chief Finance Officer.
- 7 Internal Audit Progress Report - Quarter 3 2018/19 (01/10/18 - 31/12/18) (*Pages 45 - 62*)
Report by the Chief Internal Auditor.
- 8 Internal Audit Strategy and Annual Plan 2019/20 (*Pages 63 - 84*)
Report by the Chief Internal Auditor.
- 9 Orbis Budget Management Audit - Update report (*Pages 85 - 102*)
Report by the Chief Operating Officer.
- 10 Strategic Risk Monitoring report - Quarter 3, 2018/19 (*Pages 103 - 110*)
Report by the Chief Operating Officer.
- 11 Work programme (*Pages 111 - 114*)
- 12 Any other items previously notified under agenda item 4

PHILIP BAKER
Assistant Chief Executive
County Hall, St Anne's Crescent
LEWES BN7 1UE

15 March 2019

Contact Simon Bailey, Democratic Services Officer,
01273 481935
Email: simon.bailey@eastsussex.gov.uk

Agenda Item 1

AUDIT COMMITTEE

MINUTES of a meeting of the Audit Committee held at Committee Room - County Hall, Lewes on 22 November 2018.

PRESENT Councillors Colin Swansborough (Chair) Councillors
Gerard Fox (Vice Chair), John Barnes, Matthew Beaver,
Bob Bowdler and Philip Daniel

LEAD MEMBERS Councillor David Elkin

ALSO PRESENT

Kevin Foster, Chief Operating Officer
Ian Gutsell, Chief Finance Officer
Russell Banks, Chief Internal Auditor
Nigel Chilcott, Audit Manager
Simon White, Audit Manager, Counter Fraud
Graham Glenn, Acquisition and Disposal Manager
Bethan Bolland, Executive Officer
Haley Woollard, Principal Accountant, Treasury & Taxation.

20 MINUTES OF THE PREVIOUS MEETING HELD ON 20 SEPTEMBER 2018

20.1 The Committee RESOLVED to agree the minutes as a correct record of the meeting held on 20 September 2018.

21 APOLOGIES FOR ABSENCE

21.1 Apologies for absence were received from Councillor Daniel Shing.

22 DISCLOSURES OF INTERESTS

22.1 Councillor John Barnes declared a personal, non-prejudicial interest under item 11 and 14, as he is a Rother District Councillor and an Etchingham Parish Councillor. Councillor Matthew Beaver declared a prejudicial interest under item 14, as he is a Hastings Borough Councillor and has expressed a view on the planning permission for one of the sites.

23 URGENT ITEMS

23.1 There were none.

24 INTERNAL AUDIT PROGRESS REPORT - QUARTER 2, 2018/19 (01/07/18 - 30/09/18)

24.1 The Audit Manager introduced the report. He explained that the number of completed audits for quarter is slightly lower than previous quarters. This is due to a number of reasons including the investigation activity the Internal Audit Team have carried out during the quarter and that a number of audits are at the draft report stage and are awaiting finalisation.

24.2 The Audit Manager summarised the completed audit outcomes of which three audits received an opinion of reasonable assurance, and one had an opinion of partial assurance. The partial assurance opinion was for the audit of Orbis Budget Management. The findings of this audit reflect the differences in financial management processes, and a follow up audit will be undertaken next year. The Audit Manager outlined the investigation work carried out during the quarter and confirmed that 100% of high priority actions from previous audits have been implemented. The Internal Audit Team has achieved all performance targets for the quarter. The Chief Internal Auditor continues to be able to provide reasonable assurance that the Council has in place an effective framework of governance, risk management and internal control.

Orbis Budget Management audit

24.3 The Committee asked for further information on why the Orbis Budget Management audit received a partial assurance opinion. The Committee also asked if this was linked to the Chartered Institute of Public Finance and Accounting (CIPFA) report on Surrey County Council's (SCC) finance function.

24.4 The Chief Operating Officer responded that the audit looked at the budget management systems across the three organisations. Work is in progress to develop additional budget monitoring applications across Orbis to assist budget managers to get greater clarity in the financial information they receive. The work includes looking at the efficiency of the systems in use and whether further investment is needed. It is not a reflection of the mature financial management systems that already exist in each of the organisations. The audit was undertaken in the early stages of this work, and it is acknowledged that further progress is needed.

24.5 The Chief Internal Auditor added that Orbis managers are managing budgets and getting information across three different financial systems, which has to be integrated together. The opinion reflects the view that the financial information is not as clear as it should be for budget managers. The Finance Team are working to provide more clarity and to consolidate budget information. They also provide support to managers to help them understand the information they receive.

24.6 The Committee asked if further investment in systems would be needed. The Chief Operating Officer responded that the resources for financial monitoring are included within existing budgets. However, if further investment is required it will be subject to a business case being established. The Chief Finance Officer outlined that current work includes the creation of a centre of expertise for accounting and systems. The centre of excellence is looking at the different accounting practices that exist within each of the partners to establish best practice. The Chief Finance Officer commented that he is comfortable with the direction of travel to achieve improvements.

24.7 The Chief Operating Officer explained that the CIPFA report is a report on SCC's financial resilience and the effectiveness of their finance function. It is not a reflection on the finance and support arrangements for East Sussex County Council (ESCC) and Brighton and Hove City Council (BHCC). It does not reflect the position of the Orbis service overall. The Committee asked if SCC staff are working for ESCC as part of partnership, and whether training and support is being provided. The Chief Operating Officer confirmed that support is being provided to SCC staff, including advice and support from David Kuenssberg, Director of Finance & Resources (BHCC) and Ian Gutsell, Chief Finance Officer (ESCC).

24.8 The Committee requested an update report on the implementation of the management actions from the Orbis Budget Management audit for the next committee meeting in March 2019. The Chief Operating Officer confirmed that an update report on the management actions will be provided for the next meeting, and that a follow up audit has been included in the Internal Audit Plan for next year.

Investigations – conflict of interest

24.9 The Committee asked if the undeclared conflict of interest would have come to light if the allegation had not been reported via the confidential reporting hotline. It also asked at what level of management the member of staff involved in the case worked. The Audit Manager responded that this case may not have come to light if it had not been brought to attention of the Team via the confidential reporting hotline. The Chief Internal Auditor explained that the member of staff involved was middle management and did not declare a conflict of interest. The Council does have a robust disclosure of interests system and a confidential reporting hotline, but there is little more the organisation can do if there are deliberate attempts to conceal conflicts of interest.

24.10 The Committee asked if the confidential reporting hotline is robust enough to deal with malicious allegations. The Chief Internal Auditor responded that it is robust enough to deal with malicious allegations. He explained that the Team carry out a preliminary assessment of all allegations with Human Resources and Management to establish whether there is any substance to the allegation. The Audit Manager outlined that in addition to the investigation report, an internal control report is produced to identify opportunities to improve processes and procedures. Sanctions may include disciplinary action and any criminal activity is reported to the Police.

24.11 Councillor Philip Daniel commented that there should be greater transparency around contract terms and conditions and the procurement process, which would help with exposing conflicts of interest. The Audit Manager Counter Fraud outlined that the Counter Fraud Team will be doing work on cultural education on declarations of interest. The Chief Internal Auditor confirmed that the Internal Audit Plan picks a number of contracts to audit each year, to ensure procurement processes have been adhered to.

24.12 The Committee RESOLVED to:

- 1) note the report; and
- 2) request an update report for the March 2019 Audit Committee meeting on the implementation of the management actions agreed in response to Orbis Budget Management audit.

25 COUNTER FRAUD UPDATE AND WORK PLAN (INCLUDING THE PROPOSED UPDATED ANTI-MONEY LAUNDERING POLICY)

25.1 The Audit Manager, Counter Fraud introduced the report. He outlined the formation of the Counter Fraud Team and summarised their current work. This includes a number of investigations for the Orbis partners and the submission of the data sets for the National Fraud Initiative. The latest submission on behalf of the partners was submitted in October with results from the matching exercise expected in January 2019. The Team will also be looking at all the partners' counter fraud policies to update them, which is why the Anti-Money Laundering Policy has been refreshed and is being brought to Committee prior to approval by the Governance Committee.

25.2 The Committee asked for clarification of the organisations the Audit Manager Counter Fraud works for, and how many staff there are in the Counter Fraud Team. In addition to the Audit Manager, Counter Fraud there is a Principal Auditor, a Senior Auditor and two investigators based at Brighton to deliver Housing fraud work to Brighton and Hove City Council. The Audit Manager, Counter Fraud manages the Orbis partnership team and also provides audit services to two other councils.

25.3 The Committee asked whether the customer identification system in anti-fraud work conflicts with the new General Data Protection Regulation (GDPR). The Audit Manager, Counter Fraud responded that as most of the Councils' customers are fairly well known to the Councils and there has been little impact. The main risk areas are around property transactions

and the Legal Teams carry out identity checks as part of undertaking the property transaction work.

25.4 The Committee RESOLVED to:

- 1) note the report and priorities raised; and
- 2) note the updated Anti-Money Laundering policy (contained in Appendix A) prior to submission to the Governance Committee for approval.

26 RISK MONITORING - BREXIT RISK

26.1 The Chief Operating Officer introduced the report. The report has been produced in response to the discussion of the Strategic Risk Register at the September Audit Committee meeting. The Brexit risk is currently reflected as part of the risks that are on the Strategic Register Risk Register. The report seeks the Committee's views on the way in which the risk from a disorderly Brexit should be dealt with on the Register. The report also outlines the work that has already been undertaken on this area of risk, including work that has been carried out with our South East Seven (SE7) partner authorities. The engagement with local government outlined in the report reflects the position 6 months ago, and there has been further engagement since this time.

Brexit Risk

26.2 The Committee discussed the likelihood and risks arising from a disorderly Brexit (i.e. with no transitional arrangements in place). The Committee agreed that there should be a separate item on the Strategic Risk Register for a disorderly Brexit, which should show details of the contingency planning and potential mitigation measures for the main risks. It will be especially important to cover the disruption effects related to a disorderly Brexit and displacement activity (e.g. Newhaven port which may take traffic from Dover).

26.3 The Chief Operating Officer responded he will take the advice from the Committee and create a disorderly Brexit item on the risk register. This will include the work that has already been done such as assessment in the workforce risk and the contingency planning that is taking place for national issues.

26.4 Councillor Bowdler asked if the Council has assessed the risk of further illegal immigration. The Chief Operating Officer outlined that asylum seeking placement activity and unaccompanied children is unrelated to the Brexit risk, and is covered in the Reconciling Policy, Performance and Resources (RPPR) budget setting process.

Risk from Funding Formula changes to Smaller Schools

26.5 The Committee discussed the risk arising from changes to the national funding formula for schools, which may have a particular impact on smaller schools. The Committee's concerns centre around the potential impact on primary schools, where a change in emphasis towards per pupil funding may make it more challenging to meet fixed costs. The risk to the Council arises from the possibility of smaller schools getting into financial difficulty and the impact this might have on school place planning and home to school transport costs. Some members of the Committee considered this is a developing strategic risk for the Council in the longer term, and should be on the Strategic Risk Register.

26.6 The Chief Operating Officer outlined that the risks are covered in the departmental risk register. These issues relate to the Council's statutory responsibility for school place planning and school performance, which are undertaken by the Children's Services department. As such they are within the programme of work being dealt with by the People Scrutiny Committee.

26.7 The Committee agreed that it would like further assurance that there are measures in place to deal with the financial risks arising out of the impact of funding changes on smaller schools. The Committee agreed to form a small working group comprised of Councillor Barnes and Councillor Fox who will meet with the Director of Children's Services to seek further assurance over the financial risks and report back to the Committee.

26.8 The Committee RESOLVED to:

- 1) have the disorderly Brexit risk as separate item on the Strategic Risk Register; and
- 2) seek further assurance on the risks arising from the impact of changes to funding on smaller schools from the Director of Children's Services via a small working group of Committee members.

27 ANNUAL AUDIT LETTER

27.1 The Chief Finance Officer introduced the report which provides details of the annual audit letter and fees from the Council's External Auditor, KPMG. This will be the last financial year that KPMG will audit the Council's accounts and those of the East Sussex Pension Fund. From 2018/19 onwards Grant Thornton will be the Council's External Auditors.

27.2 The Committee noted the annual audit letter and asked if the issue raised regarding the risk to the pension fund arising from hard to value investments is being monitored. The Chief Finance Officer responded that the Pension Committee is fully aware of the issue and is taking steps to look at the risk from hard to values investments.

27.3 The Committee RESOLVED to note the Annual Audit Letter and the fee update for 2017/18.

28 TREASURY MANAGEMENT STEWARDSHIP REPORT 2017/18 AND MID YEAR REPORT 2018/19.

28.1 The Chief Finance Officer introduced the report which outlines key issues in Treasury Management performance and the implementation of the Treasury Management Strategy. During the 2017/18 financial year the Council received £1.3 million from investments and repaid £4.8 million of Public Works Loan Board (PWLB) debt. There was no additional borrowing during this period, and there were no further opportunities to repay or restructure debt.

28.2 In the first 6 months of the current financial year (2018/19) the Council has invested £5 million in the CCLA Property Fund. The Council will repay £4.6 million of PWLB debt and £23 million of Lender Option, Borrower Option (LOBO) loans. The Council continues to look for opportunities to increase income, and reduce loans and the 'cost of carry' (which is the cost of loans the Council has taken out, less any income earned on deposits). The Treasury Management Strategy will be refreshed as part of RPPR process and a report will be presented to Cabinet in January 2019.

28.3 The Committee discussed the report and asked for clarification on a number of points:

- The repayment of the PWLB debt did not include any penalty payments as the loans had matured.
- The repayment of the LOBO loan was made from cash balances and was not financed by further PWLB borrowing.
- The Chief Finance Officer agreed to provide the Committee with further information on the Council's 'cost of carry' in comparison with other local authorities, and an explanation for the change in interest rates in the table in paragraph 7.1 of appendix D, after the meeting.

28.4 The Committee welcomed the investment in the CCLA Property Fund, which it noted was a very diversified property portfolio. The CCLA Fund had a very good investment strategy and the Chief Finance Officer offered to circulate a copy of due diligence report to the Committee. The Committee asked if the value of the fund fell as part of a mark to market loss, how this would be reflected in the Council's accounts. The Principal Accountant, Treasury and Taxation responded that at present it is out of scope as there is a statutory override, so the Council would not have to make a provision in its accounts at present. This override will continue for the next five years and then will be reviewed.

28.5 The Committee noted the CCLA investment and asked what the plans were for similar investments to increase income for the Council. The Chief Finance Officer outlined that the CCLA investment is part of a longer term strategy and the Treasury Management Team will look at further opportunities as part of the refresh of the Treasury Management Strategy. Lessons learnt from the CCLA investment will be applied to further work in this area, which will take a staged approach (e.g. a £5 million investment and then another £5 million).

28.6 The Committee RESOLVED to note the Treasury Management performance in 2017/18 incorporating the mid-year review for the first half of 2018/19.

29 WORK PROGRAMME

29.1 The Committee discussed the work programme and RESOLVED to have an update report on implementation of management recommendation of the Orbis Budget Management audit at the March 2019 Audit Committee meeting.

30 PROPERTY ASSET DISPOSAL AND INVESTMENT STRATEGY (INCLUDING LINKS TO THE COMMUNITY ASSET TRANSFER POLICY)

30.1 The Acquisition and Disposal Manager introduced the report. The Council has £550 million worth of non-highways assets on the property balance sheet, and most of the assets are fairly illiquid. There is a core of around £25 million worth of assets that have been the focus of the work on the Strategy, which could be delivered over the next five years. The work on the Strategy does not include direct property investment. However, the Strategy does include the ability to invest directly into new opportunities. For example, the Council could invest in a site that it owns to develop business units rather than sell the site. The report outlines the business processes and the sort of resources required for the implementation of the Strategy. This includes how the Strategy works with asset management planning, property planning and investment planning processes within the Council.

30.2 The Committee asked whether all assets and leased buildings are under central management. The Chief Operating Officer responded that the corporate landlord model is in place for most assets, but there are still a few smaller assets managed directly by departments. This is being reviewed as part of the RPPR process in terms of the operational estate. The management of the portfolio of operational assets, and the portfolio of non-operational and investment assets, are both functions within the Property Team. Corporate policy links asset management with the investment part of the property function.

30.3 The Acquisition and Disposal Manager outlined that from a portfolio management point of view, there are other financial and non-financial returns that can be achieved rather than simply achieving a capital receipt. Implementation of the Strategy includes a wider modelling of economic benefits. The Committee noted the process of site and asset reviews and where a higher level of social value benefit is possible, an opportunity for a Community Asset Transfer (CAT) of an asset may be identified. The Committee suggested that it would be good to

publicise the Community Asset Transfer process where an asset is transferred for specific social or community value outcomes, and that it is important to have a good explanation of the process.

30.4 The Committee asked whether there is a view on the equity to debt ratio and a minimum acceptable level of return, when the Council is looking at redeveloping or investing in an asset. The Acquisition and Disposal Manager replied that the equity to debt ratio and the level of return is taken into account on a site by site basis.

30.5 The Committee asked what was meant by paragraph 3.3 in the conclusion of the report. The Acquisition and Disposal Manager explained that this refers to the impact that changes to the delivery of services may have on property portfolio, which will in turn feed into the Property Asset Disposal and Investment Strategy work. The Committee asked if there was a risk of a premature disposal of assets in a scenario where the Council's finances change in the future. The Acquisition and Disposal Manager responded that the review process checks to see if an asset is suitable for alternative uses before it is declared surplus. So there is a process in place to assess whether an asset may need to be retained for future use.

30.6 The Committee RESOLVED to note the report covering the period April 2018 to September 2018.

31 ANY OTHER NON - EXEMPT ITEMS PREVIOUSLY NOTIFIED UNDER AGENDA ITEM 4

31.1 There were none.

32 EXCLUSION OF PUBLIC AND PRESS

32.1 The Committee RESOLVED to exclude the public and press.

33 PROPERTY ASSET DISPOSAL AND INVESTMENT STRATEGY - ADDITIONAL INFORMATION

33.1 The Acquisition and Disposal Manager introduced the report. The Committee discussed the summary analysis of the initial list of core sites and an indication of options available to support the investment strategy.

33.2 The Committee RESOLVED to note the information in the report.

34 ANY OTHER EXEMPT ITEMS PREVIOUSLY NOTIFIED UNDER AGENDA ITEM 4

34.1 There were none.

The meeting ended at 12.00 pm.

Councillor Colin Swansborough (Chair)
Chair

This page is intentionally left blank

Report to: **Audit Committee**

Date: **25 March 2019**

By: **Chief Finance Officer**

Title of report: **External Audit Plan 2018/19**

Purpose of report: **To inform the Committee of the content of the Council's External Audit Plan for 2018/19**

RECOMMENDATION-

The Committee is recommended to consider and comment on the External Audit Plan for 2018/19.

1. Background

1.1 Grant Thornton have been appointed as the Council's external auditors for a five year period from 2018/19 to 2022/23.

1.2 The External Audit Plan provides an overview of the planned scope and timing of the statutory audit of the Council's accounts and identifies any significant risks. The auditors must form and express an opinion on the Council's financial statements. The plan also outlines the work the auditor will undertake as part of the assessment of whether the Council has proper arrangements in place to secure value for money (VFM).

2. 2018/19 Financial Statements

2.1 The External Audit Plan for 2018/19 (Appendix 1) identifies four significant risks that require audit consideration as they could potentially cause a material error in the financial statements. These are:

- Fraud in revenue recognition (this presumed risk has been rebutted);
- Management override of controls (journals, estimates and transactions);
- Valuation of property, plant & equipment;
- Valuation of the Pension Fund net liability.

2.2 The VFM significant risks identified are:

- The Council's financial sustainability;
- Working in partnership with the National Health Service.

2.3 The unaudited draft financial statements have to be prepared by 31 May 2019. The audit will be conducted during June and early July. The audited statements have to be approved by committee before 31 July 2019.

2.4 The planned audit fee for 2018/19 is £64,350 which is a reduction of £6,802 on the previous year. The fee is based on the assumption that the scope of the audit, and the Authority and its activities, do not significantly change.

3. Conclusion and reasons for recommendations

3.1 The External Audit Plan is presented to the committee for discussion and comment. The Plan will be reported to the Cabinet for approval on 23 April 2019.

IAN GUTSELL

Chief Finance Officer

Contact Officer: Ross Sutton, Principal Accountant, 01273 335520,
ross.sutton@eastsussex.gov.uk

Local Member(s): All

Background Documents: None

This page is intentionally left blank

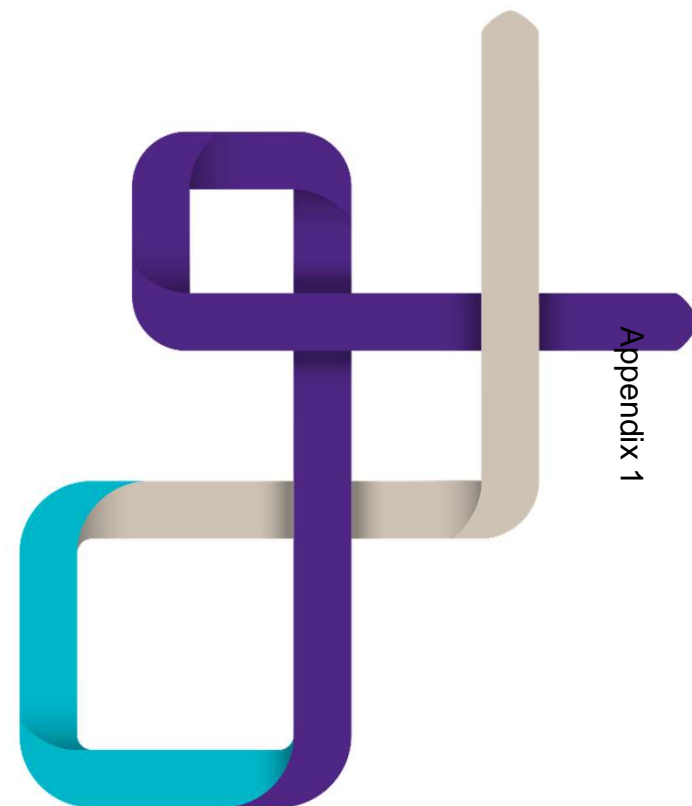
External Audit Plan

Year ending 31 March 2019

East Sussex County Council

25 March 2019

Page 13



Appendix 1

Contents



**Your key Grant Thornton
team members are:**

Page 14 **Darren Wells**
Engagement Lead
T: 01293 554120
E: Darren.J.Wells@uk.gt.com

Marcus Ward
Engagement Manager
T: 020 7728 3350
E: Marcus.Ward@uk.gt.com

Liulu Chen
In-charge
T: 020 7865 2561
E: Liulu.Chen@uk.gt.com

Section	Page
1. Introduction & headlines	3
2. Key matters impacting our audit approach	4
3. Audit approach	5
4. Significant risks identified	6
5. Other matters	9
6. Materiality	10
7. Value for Money arrangements	11
8. Audit logistics, team & fees	13
9. Early Close	14
10. Independence & non-audit services	15

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of East Sussex County Council ('the Authority') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of East Sussex County Council. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Authority's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Fraud in revenue recognition – this risk has been rebutted for the Council as documented on page 6;
- Management override of controls;
- Valuation of property, plant and equipment;
- Valuation of the Pension Fund net liability.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report in July 2019.

Materiality

We have determined planning materiality to be £20m for the Authority, which equates to 1.75% of your prior year gross expenditure (rounded down) for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1m.

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified the following VFM significant risks:

- The Council's Financial Sustainability
- Working in partnership with the NHS

Audit logistics

Our interim visit will take place in March and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our fee for the audit will be £64,350 for the Authority, subject to the Authority meeting our requirements set out on page 13.

Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Key matters impacting our audit

Key matters

The wider economy

Local Government funding continues to be challenging with increasing cost pressures and demand from residents, especially around Special Educational Needs and Disability (SEND) funding and the cost of Adult Social Care. You are responding to this challenge in a variety of ways, including consultation with residents in regards to your Core Offer proposal and lobbying Central Government.

You are progressing with shared service arrangements under the 'Orbis' partnership with Surrey County Council and Brighton & Hove City Council.

The forecast revenue budget outturn for 2018/19 as at month 9 was a £3.7m surplus. This comprises a £3.1m deficit on service provision, offset by a £6.8m surplus on centrally held budgets and corporate funding. The surplus amount includes £3.5m from your contingency provision.

You are a Business Rates pilot for 2019/20 which means you will retain 75% rather than 50% of any real-terms growth in Business Rates revenue.

You are planning for a balanced budget in 2019/20 with a net contribution to reserves. This position is possible due to one-off increases in funding, including the Social Care Grant. Later years show a deficit gap between forecast income and expenditure.

Working with the NHS

You have a statutory duty to provide Public Health and Adult and Child Social Care services to residents. Failure to secure maximum value from partnership working with the NHS could impact negatively on these services, leading to worse health outcomes for your residents and an increase to current and future costs.

Orbis financial reporting

This is the first year that your financial reporting team will be delivered via the Orbis partnership.

There are challenges for your financial reporting team to overcome with the new working arrangements, including understanding the different cultures, systems, processes, controls and procedures across the Orbis partnership.

There is also a capacity risk; at the time of writing there is a financial reporting post vacant in the Orbis structure.

Brexit

You face the challenge of delivering services during significant political uncertainty on a national scale. With the UK due to leave the European Union on 29 March 2019, there will be national and local implications resulting from Brexit that will impact on you.

You will need to review your workforce plans, analyse your supply chains and model potential impacts on your finances including investment and borrowing as well as any potential impact on the valuation of your assets.

Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of:

- IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model.
- IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition.

Our response

- We will assess the financial sustainability of the Council and your partnership working with the NHS as part of our Value for Money conclusion. See pages 11 and 12 for more detail.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- We will ask management to provide us with a paper which documents their consideration and judgement in relation to the adoption of the new standards. We will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.
- We will have early discussions with management in regards to any key financial reporting considerations and / or changes, for example to your Minimum Revenue Provision accounting.

Audit approach

Use of audit, data interrogation and analytics software

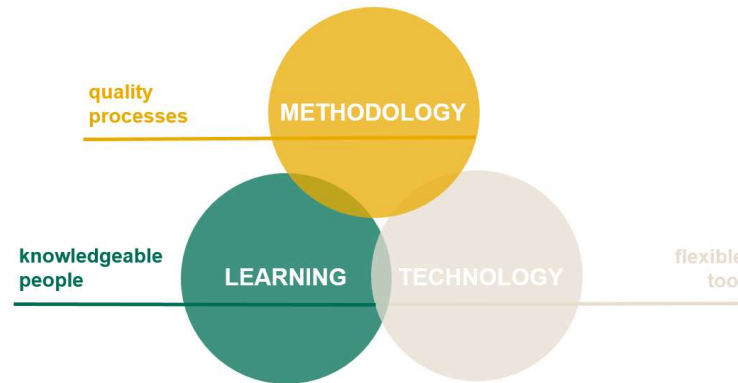
LEAP



Audit software

- A globally developed ISA-aligned methodology and software tool that aims to re-engineer our audit approach to fundamentally improve quality and efficiency
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- A cloud-based industry-leading audit tool developed in partnership with Microsoft

Page 17



Inflo



Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.



REQUEST & SHARE

- Communicate & transfer documents securely
- Extract data directly from client systems
- Work flow assignment & progress monitoring



ASSESS & SCOPE

- Compare balances & visualise trends
- Understand trends and perform more granular risk assessment



VERIFY & REVIEW

- Automate sampling requests
- Download automated work papers



INTERROGATE & EVALUATE

- Analyse 100% of transactions quickly & easily
- Identify high risk transactions for investigation & testing
- Provide client reports & relevant benchmarking KPIs



FOCUS & ASSURE

- Visualise relationships impacting core business cycles
- Analyse 100% of transactions to focus audit on unusual items
- Combine business process analytics with related testing to provide greater audit and process assurance



INSIGHTS

- Detailed visualisations to add value to meetings and reports
- Demonstrates own performance and benchmark comparisons

IDEA



- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group
- In addition to IDEA, we also other tools like ACL and Microsoft SQL server
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively

Appian



Business process management

- Clear timeline for account review:
 - disclosure dealing
 - analytical review
- Simple version control
- Allow content team to identify potential risk areas for auditors to focus on

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	<p>Under ISA (UK) 240 there is non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk for the Authority.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
ISA240 revenue risk The risk that revenue includes fraudulent transactions	<p>We have considered the rebuttable presumed risk under ISA (UK) 240 that revenue may be misstated due to the improper recognition of revenue.</p> <p>We have rebutted this presumed risk for revenue streams that are derived from Council Tax, Business Rates and Grants on the basis that they are income streams that are hard to manipulate.</p> <p>We have not deemed it appropriate to rebut this presumed risk for all other material streams which are as follows:</p> <ul style="list-style-type: none"> • Fees, charges and other service income • Support service recharges <p>We have therefore identified the occurrence and accuracy of these income streams and the existence of associated receivable balances as a significant risk of material misstatement.</p>	<p>For all material income streams where we have not rebutted the presumed risk of revenue recognition we will:</p> <ul style="list-style-type: none"> • evaluate your accounting policy for recognition of income for appropriateness and compliance with LG Code of Practice • update our understanding of your system for accounting for income and evaluate the design of the associated controls • review and sample test income to supporting evidence • evaluate and challenge significant estimates and the judgments made by management

Significant risks identified - continued

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Property, Plant and Equipment	<p>You revalue your land and buildings on an rolling three-year basis to ensure that carrying value is not materially different from current value. This represents a significant estimate by management in the financial statements.</p> <p>Additionally, management will need to ensure the carrying value of assets not revalued as at 31 March 2019 in the financial statements is not materially different from the current value at the financial statements date.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation experts • Write to the valuer to confirm the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year to see if they had been input correctly into the Council's asset register • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.
Valuation of the Pension Fund net liability	<p>Your Pension Fund net liability, as reflected in your balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements</p> <p>The pension fund net liability is considered a significant estimate due to its value (£409.8 million PY) in the Council's Statement of Financial Position and the sensitivity of the estimate to changes in key assumptions. Brexit could have an impact on the values included within the Accounts at year end so this will need to be factored into consideration.</p> <p>We identified valuation of the your Pension Fund net liability as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that your Pension Fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out your Pension Fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • test the consistency of the Pension Fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.

Significant risks identified - continued

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Private Finance Initiative (PFI) liability</p> <p>The risk of material error in the accuracy and presentation of the Private Finance Initiative (PFI) liability and associated disclosures</p>	<p>You have two builds which are financed through PFI schemes: Waste and Peacehaven Schools. As these PFI transactions are significant, complex and involve a degree of subjectivity in the measurement of financial information we have categorised them as a significant risk.</p>	<p>We will</p> <ul style="list-style-type: none"> • review your PFI models and assumptions contained therein; • compare your PFI models to previous year to identify any changes; • review and test the output produced by your PFI models to generate the financial balances within the financial statements; • review the PFI disclosures to ensure they are consistent with the Code of Practice on Local Authority Accounting and the International Accountancy Standard IFRIC12. We will check any additional disclosures that you include within the financial statements to the PFI models.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
 - Issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State.
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
 - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Authority's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

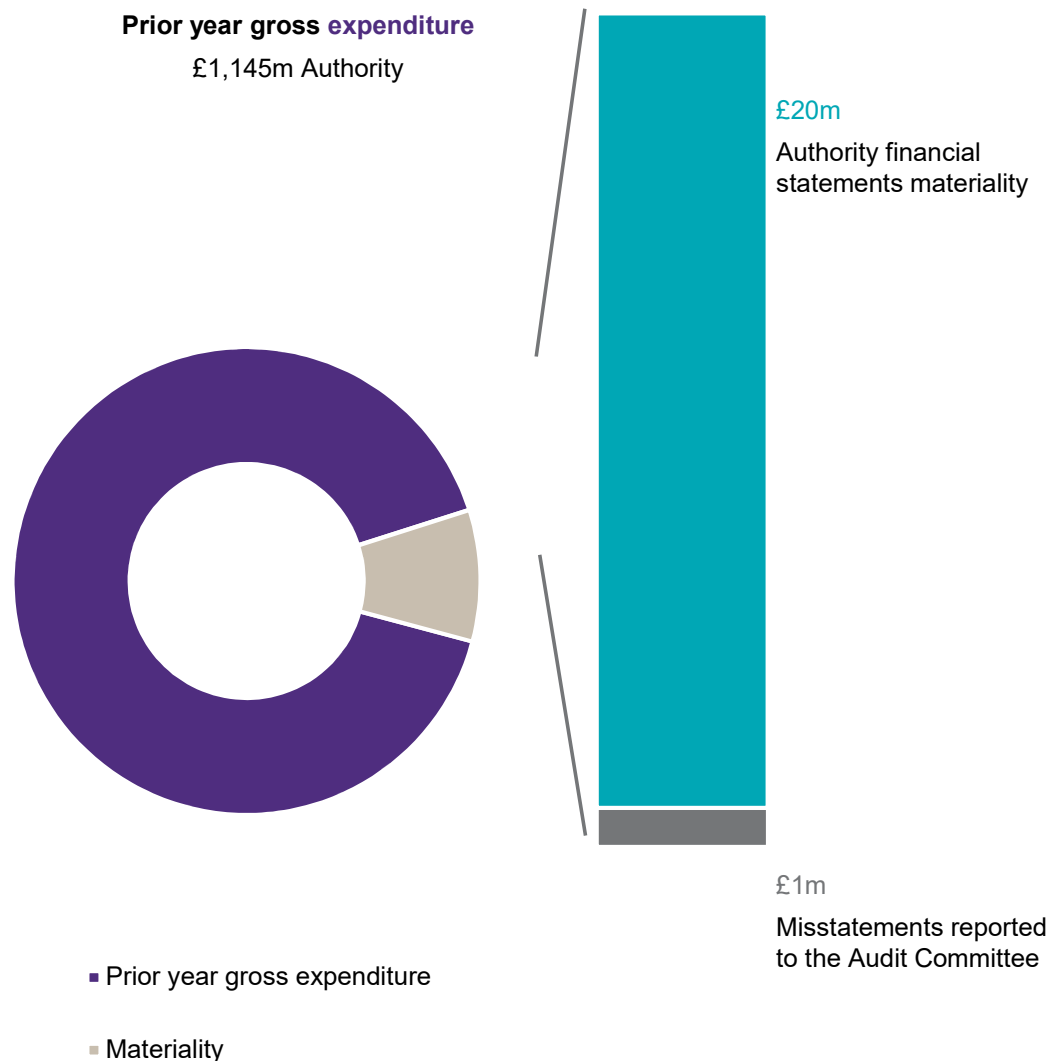
Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the Authority for the financial year. In the prior year the outgoing auditors used the same benchmark. Materiality at the planning stage of our audit is £20m for the Authority, which equates to 1.75% of your prior year gross expenditure. We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1m.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



Value for Money arrangements

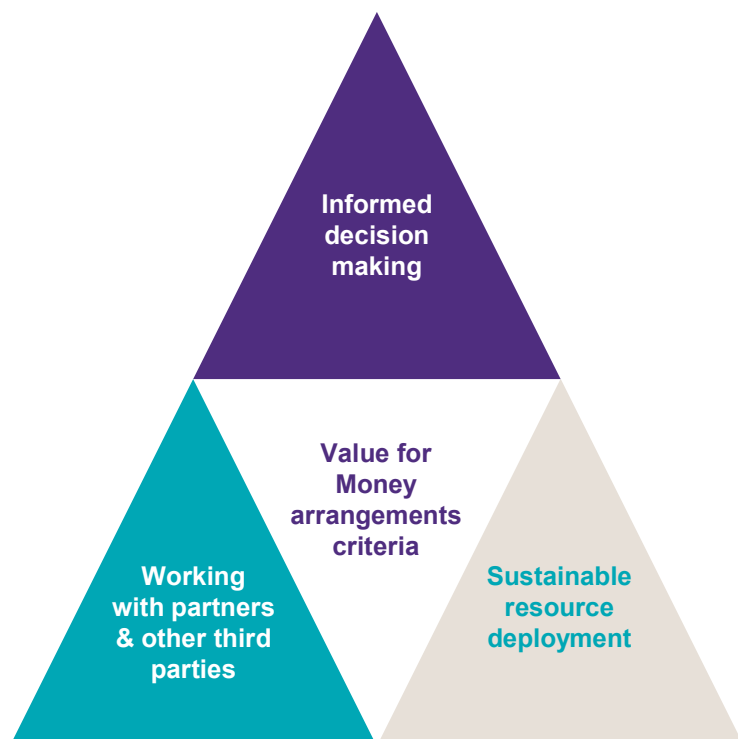
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.



Ongoing Financial Sustainability

Risk

Rising demand for the Council's services and falling government grants are putting the Council's finances under considerable strain. Your Medium Term Financial Plan shows a deficit position of £12m in 2020/21. Therefore you need to manage your resources carefully to ensure a sustainable future. Brexit adds uncertainty to this challenge and you will no doubt monitor developments closely as the end of March approaches.

Planned Response

To gain assurance over this risk we are planning to undertake work in the following areas:

- review your 2018-19 outturn, including details of performance against both the Revenue and Capital Budgets;
- review progress against the 2019-20 financial plan up to the completion of our audit; and
- assess the reasonableness of assumptions made in your Medium Term Financial Strategy
- assess your reserve levels
- review documentation and discuss your progress and plans to address the budget gap in coming years including the Core Offer.

We will also consider the financial impact of any financial issues arising from Brexit. These may include changes in property values, adverse changes to investment and borrowing rates, changes to business rate income, and the impact on your workforce.

Value for Money arrangements (continued)

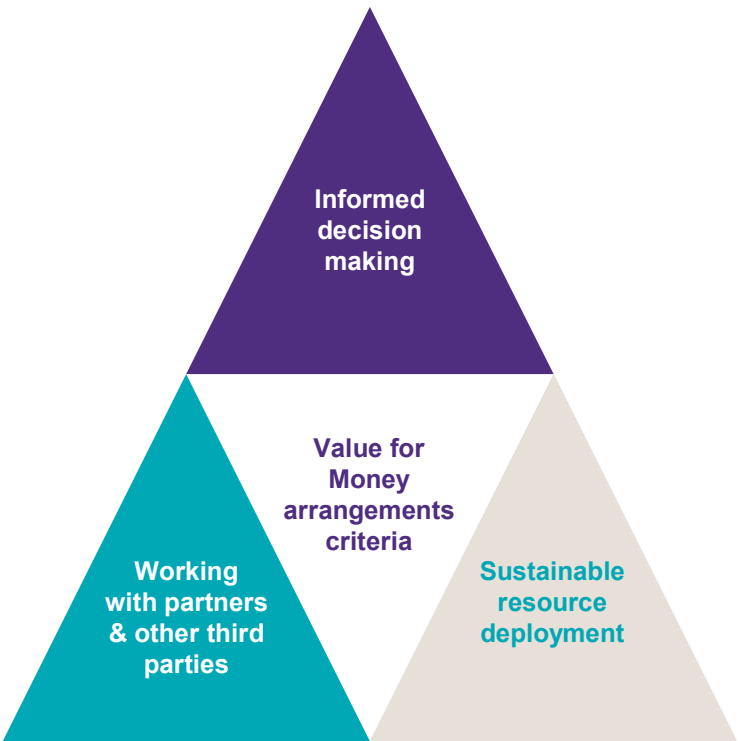
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”

This is supported by three sub-criteria, as set out below:



Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.



Working in partnership with the NHS

Risk

Failure to secure maximum value from partnership working with the NHS could impact negatively on social care and public health services, leading to worse health outcomes for your residents and also increased current and future costs.

Planned Response

We will review documentation and speak to officers at the Council and potentially NHS partners to understand your significant NHS collaboration initiatives, including but not limited to: East Sussex Better Together and Connecting 4 You.



Brexit

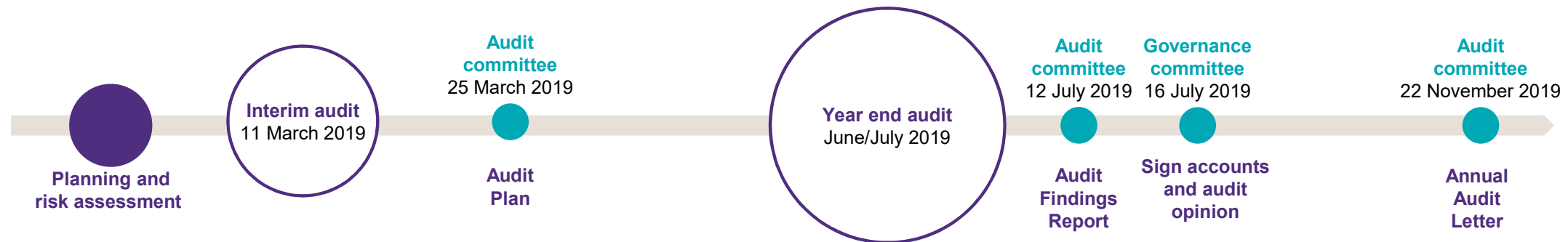
Risk

With the UK due to leave the European Union on 29 March 2019, there will be national and local implications for which you will need to plan.

Planned Response

Review your arrangements and plans relating to Brexit. Our review will focus on areas such as workforce planning, supply chain analysis and impacts on finances including investment and borrowing as well as any potential impact on the valuation of your assets.

Audit logistics, team & fees



Darren Wells, Engagement Lead

Darren will be the main point of contact for the Chief Executive and Members. He will share his wealth of knowledge and experience across the sector providing challenge as a critical friend and sharing good practice. Darren will provide pragmatic solutions and act as a sounding board with Members including Audit Committee. Darren has overall responsibility for quality and as such will review all reports and the team's work.



Marcus Ward, Audit Manager

Marcus will work with the senior members of the finance team and oversee project management, including early transaction and controls testing and agreement of accounting issues on a timely basis. Marcus will ensure our audit is tailored specifically to you and is delivered efficiently. Marcus will undertake reviews of the team's work and draft reports for Audit Committee, ensuring they remain clear, concise and understandable.



Liulu Chen, Audit In-charge

Liulu will lead the onsite team and will be the day to day contact for the audit. She will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management. She will also undertake the more technical aspects of the audit, coach the junior members of the team and review the team's work.

Audit fees

The planned audit fees are £64,350 for the financial statements audit completed under the Code, which are inline with the scale fee published by PSAA. In setting your fee, we have assumed that the scope of the audit, and the Authority and its activities, do not significantly change.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Any proposed fee variations will need to be approved by PSAA.

Early close

Meeting the 31 July audit timeframe

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 13). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we will share and agree with you in advance
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams. No other services were identified.



Report to: **Audit Committee**

Date: **25 March 2019**

By: **Chief Finance Officer**

Title of report: **External Audit Plan for the East Sussex Pension Fund 2018/19**

Purpose of report: **To inform the Committee of the content of the Pension Fund external audit plan for 2018/19**

RECOMMENDATION-

The Committee is recommended to consider and comment upon the External Audit Plan for the East Sussex Pension Fund for 2018/19.

1. Background

1.1 The Council has used the Public Sector Audit Appointments Limited (PSAA) to source the appointment of Grant Thornton LLP to audit the Council and East Sussex Pension Fund (ESPF) accounts from 2018/19 to 2022/23. The External Audit Plan confirms the core external audit fee as £20,487, this is a reduction compared to the 2017/18 audit fee of £26,607, and is in line with the scale fee published by PSAA. Where the auditors are required to respond to requests received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations, these will be billed in addition to the audit fee on a case by case basis. The audit fee is charged to the ESPF.

2. Supporting Information

2.1 The attached ESPF external audit plan (Appendix 1) sets out in more detail the work the external auditors will conduct in order to audit the Pension Fund's 2018/19 accounts. The Plan reflects risks that, in the judgement of the auditor, require audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters.

2.2 Grant Thornton's initial assessment has not identified any significant risks that are specific to the Pension Fund. Areas of audit focus either due to their size, level of judgement or their influence on other balances within the financial statements are:

- Fraud risk from management override of controls (required by International Standards in Auditing).
- Valuation of hard to price (Level 3) investments.
- Revenue cycle includes fraudulent transactions

3. Conclusion and reasons for recommendations

3.1 As this is the first time Grant Thornton have audited ESPF, officers will continue to liaise with them to ensure that their work is delivered as efficiently and effectively as possible. That internal and external audit plans are complementary and make best use of audit resources. The Audit Plan was considered and discussed by the Pension Board and Pension Committee at meetings on 4 February 2019 and 25 February 2019 respectively.

IAN GUTSELL
Chief Finance Officer

Contact Officer: Ola Owolabi, Head of Pensions
Tel. No. 01273 482017
Email: Ola.Owolabi@eastsussex.gov.uk

Local Member(s): All
Background Documents - None

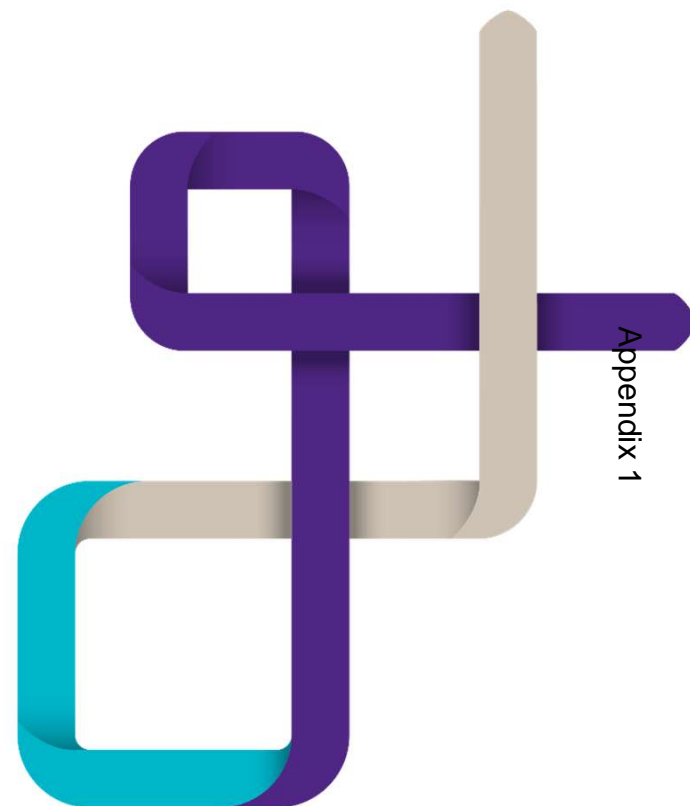
This page is intentionally left blank

External Audit Plan

Year ending 31 March 2019

East Sussex Pension Fund
February 2019

Page 31



Appendix 1

Contents



Your key Grant Thornton
team members are:

Page 32

Darren Wells

Engagement Lead

T: +44 (1293) 554120

E: Darren.J.Wells@uk.gt.com

Marcus Ward

Engagement Manager

T: +44 (0)20 7728 3350

E: Marcus.Ward@uk.gt.com

Liulu Chen

In-charge

T: +44 (0)20 7865 2561

E: Liulu.Chen@uk.gt.com

Section

1. Introduction & headlines
2. Key matters impacting our audit
3. Audit approach
4. Significant risks identified
5. Other matters
6. Materiality
8. Audit logistics, team & fees
9. Early Close
10. Independence & non-audit services

Page

- 3
- 4
- 5
- 6
- 8
- 9
- 10
- 11
- 12

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of East Sussex Pension Fund ('the Fund') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Fund. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit Committee).

The audit of the financial statements does not relieve management or the Pension Board/Pension Committee and Audit Committee of your responsibilities.

Our audit approach is based on a thorough understanding of the Fund's business and is risk based.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Valuation of Level 3 Investments
- Management override of controls

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined materiality at the planning stage of our audit to be £33m for the Fund, which equates to 0.98% of your net assets for 2017/2018 accounts.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1.65m.

Audit logistics

Our interim/advance visit will take place in February/March and our final visit will take place in June. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our fee for the audit will be £20,487 for the Fund, subject to management meeting our requirements set out on page 11.

Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

Key matters impacting our audit

External Factors

SI 493/2018 – LGPS (Amendment) Regulations 2018

Introduces a new provision for employers to receive credit for any surplus assets in a fund upon ceasing to be a Scheme employer. This could potentially lead to a material impact on funding arrangements and the need for updated Funding Strategy Statements.

Guaranteed Minimum Pension (GMP)

- Pension funds are continuing to work through the GMP reconciliation process.
- In January 2018 the government extended its “interim solution” for indexation and equalisation for public service pension schemes until April 2021. Currently the view is that the October 2018 High Court ruling in respect of GMP equalisation is therefore not likely to have an impact upon the LGPS.

Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of IFRS 9 Financial Instruments. In practice, IFRS 9 is anticipated to have limited impact for pension funds as most assets and liabilities held are already classed as fair value through profit and loss. As such, we do not anticipate a material impact of this change on the Fund.

The Pensions Regulator (TPR)

TPR's [Corporate Plan](#) for 2018-2021 includes three new Key Performance Indicators (KPIs) directly related to public service pension schemes and TPR has chosen the LGPS as a cohort for proactive engagement throughout 2018 and 2019.

Internal Factors

New audit methodology

We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. LEAP will enable us to be responsive to changes that may occur in your organisation and more easily incorporate our knowledge of the Pension Fund into our risk assessment and testing approach.

Our response

- We will continue to monitor the position in respect of GMP equalisation and reconciliation. For pension funds the immediate impact is expected to be largely administrative rather than financial.

- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.
- We will keep under review any interaction the Fund has with TPR and tailor our audit approach where necessary.

- We will seek to adopt a controls based approach over Scheme Contributions, Benefits Payable and Membership Data.
- We will ensure that our resources and testing are best directed to address your risks in an effective way

Audit approach

Use of audit, data interrogation and analytics software

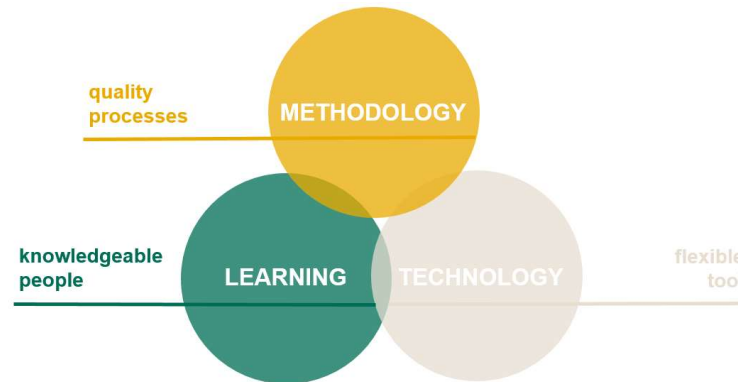
LEAP



Audit software

- A globally developed ISA-aligned methodology and software tool that aims to re-engineer our audit approach to fundamentally improve quality and efficiency
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- A cloud-based industry-leading audit tool developed in partnership with Microsoft

Page 35



Inflo



Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.



REQUEST & SHARE

- Communicate & transfer documents securely
- Extract data directly from client systems
- Work flow assignment & progress monitoring



ASSESS & SCOPE

- Compare balances & visualise trends
- Understand trends and perform more granular risk assessment



VERIFY & REVIEW

- Automate sampling requests
- Download automated work papers



INTERROGATE & EVALUATE

- Analyse 100% of transactions quickly & easily
- Identify high risk transactions for investigation & testing
- Provide client reports & relevant benchmarking KPIs



FOCUS & ASSURE

- Visualise relationships impacting core business cycles
- Analyse 100% of transactions to focus audit on unusual items
- Combine business process analytics with related testing to provide greater audit and process assurance



INSIGHTS

- Detailed visualisations to add value to meetings and reports
- Demonstrates own performance and benchmark comparisons

IDEA



- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group
- In addition to IDEA, we also other tools like ACL and Microsoft SQL server
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively

Appian



Business process management

- Clear timeline for account review:
 - disclosure dealing
 - analytical review
- Simple version control
- Allow content team to identify potential risk areas for auditors to focus on

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Fund face external scrutiny of spending and activity, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk for both the Fund, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
The revenue cycle includes fraudulent transactions (rebutted)	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority and the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including East Sussex County Council and East Sussex Pension Fund, mean that all forms of fraud are seen as unacceptable. <p>We do not consider this to be a significant risk for East Sussex Pension Fund.</p>

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 3 investments	<p>The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.</p> <p>By their nature level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2019.</p> <p>We therefore identified valuation of level 3 investments as a significant risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes for valuing Level 3 investments • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for level 3 investments, mindful of the requirements of the Code • test the valuation of a sample of investments by obtaining and reviewing the audited accounts of the level 3 funds, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2019 with reference to known movements in the intervening period and • in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Other matters

Other work

The Fund is administered by East Sussex County Council (the 'Council'), and the Fund's accounts form part of the Council's financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Fund, such as:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
 - issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State;
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
 - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited fund accounts.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Fund's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and related disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined materiality at the planning stage of our audit to be £33m for the Fund. We consider the proportion of the net assets of the Fund to be the appropriate benchmark for the financial year.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Pension Board/Pension Committee and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.65m.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Prior year net assets

£3,383m

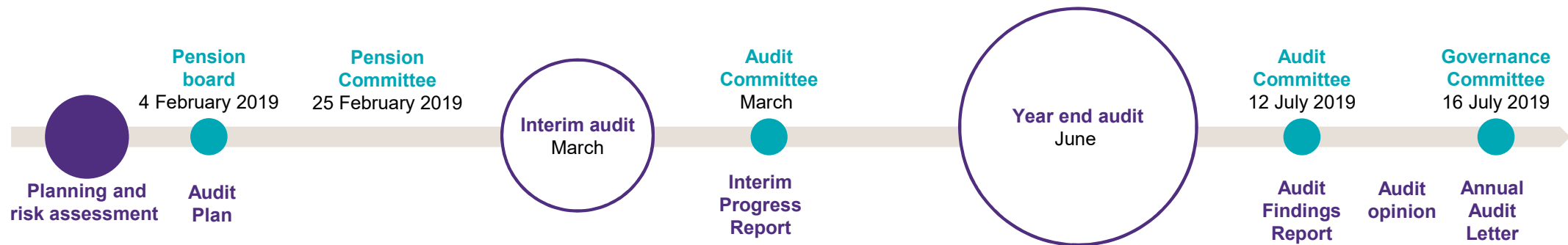


Planning materiality

£33m

■ Prior year net assets ■ Materiality

Audit logistics, team & fees



Darren Wells, Engagement Lead

Darren will be the main point of contact for the Chief Executive, the Section 151 Officer and Members. He will share his wealth of knowledge and experience across the sector providing challenge, sharing good practice, providing pragmatic solutions and acting as a sounding board with Members and the Audit, Governance and Standards Committee. Darren will ensure our audit is tailored specifically to you and is delivered efficiently. Darren will review all reports and the team's work.



Marcus Ward, Audit Manager

Marcus will work with the senior members of the finance team ensuring early delivery of testing and agreement of accounting issues on a timely basis. He will attend Integrated Audit and Risk Committees, undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable to all. Marcus will work with Internal Audit to secure efficiencies and avoid duplication, providing assurance for your Annual Governance Statement.



Liulu Chen, Audit In-charge

Liulu will lead the onsite team and will be the day to day contact for the audit. She will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management. She will also undertake the more technical aspects of the audit, coach the junior members of the team and review the team's work.

Audit fees

The planned audit fees are £20,487 for the financial statements audit completed under the Code, which are in line with the scale fee published by PSAA. In setting your fee, we have assumed that the scope of the audit, the Fund and its activities, do not change significantly.

Where we are required to respond to requests received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations these will be billed in addition to the audit fee on a case by case basis.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Any proposed fee variations will need to be approved by PSAA.

Early close

Meeting the 31 July audit timeframe

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 10). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

We will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Fund. No other services were identified.

Non-audit services provided prior to appointment

Ethical Standards require us to draw your attention to relevant information on recent non-audit / additional services before we were appointed as auditor. We have not provided to the Fund any non-audit / additional services before we were appointed as auditor.



This page is intentionally left blank

Report to:	Audit Committee
Date:	25 March 2019
By:	Orbis Chief Internal Auditor
Title of report:	Internal Audit Progress Report – Quarter 3 (01/10/18 – 31/12/18)
Purpose of report:	To provide Members with an update on all internal audit and counter fraud activity completed during the quarter, including a summary of all key findings. The report also includes details of progress on delivery of the annual audit plan along with an update on the performance of the internal audit service during the period.

RECOMMENDATIONS

Members are asked to:

1. Consider and agree any action that should be taken in response to the issues raised in any of the audits carried out during Quarter 3;
 2. identify any new or emerging risks for consideration for inclusion in the internal audit plan.
-

1. Background

1.1 This progress report covers work completed between 1 October 2018 and 31 December 2018.

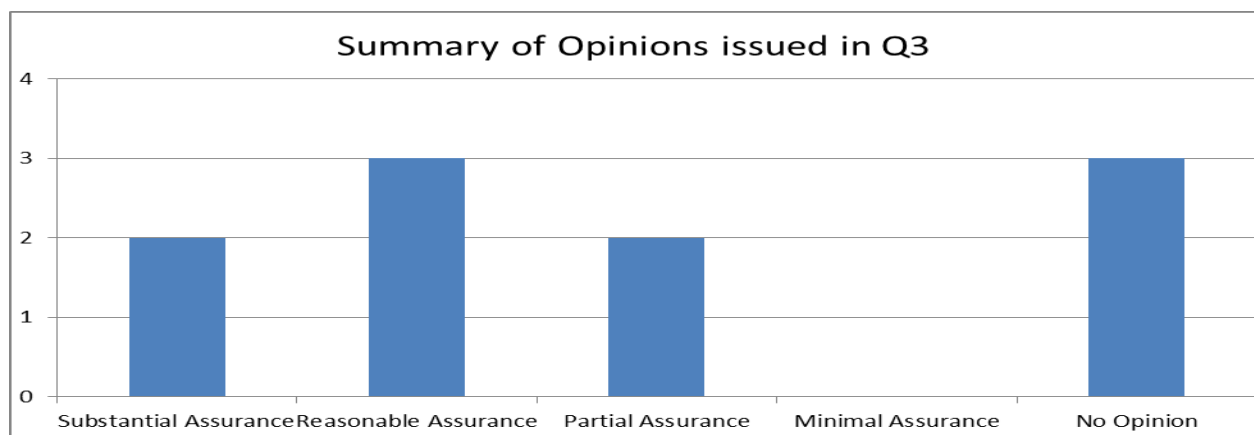
2. Supporting Information

2.1 The current annual plan for internal audit is contained within the Internal Audit Strategy and Annual Plan 2018-19 which was approved by Audit Committee on 22 March 2018.

3. Conclusion and Reasons for Recommendation

3.1 Key audit findings from final reports issued during Quarter 3 are summarised in Appendix 1.

3.2 Overall, of the seven formal audits finalised during the quarter in which an opinion was given, two received opinions of 'substantial assurance', three received opinions of 'reasonable assurance', and two received 'partial assurance'. There were no opinions of 'minimal assurance'.



3.3 Although the same range of internal audit opinions are issued for all audit assignments (where an opinion is relevant), it is necessary to also consider the level of risk associated with each area under review when drawing an opinion on the Council's overall control environment. **Taking into account these considerations, the Chief Internal Auditor continues to be able to provide reasonable assurance that the Council has in place an effective framework of governance, risk management and internal control.**

3.4 The overall conclusion has been drawn based on all audit work completed in the year to date and takes into account the management response to audit findings and the level of progress in subsequent implementation. This is something which will continue to be monitored and reported on by Internal Audit throughout the year.

3.5 Formal follow up reviews continue to be carried out for all audits where 'minimal assurance' opinions have been given and for higher risk areas receiving 'partial assurance'.

3.6 Members will recall that flexibility was built into the audit plan to allow resources to be directed to any new and emerging risks. We continue to liaise with departments to identify these but would also welcome input from this Committee. Details of those reviews added and removed from the plan so far this year are set out at the end of Appendix 1.

3.7 Progress against our performance targets (focussing on a range of areas relating to our service) can be found in Appendix 1. All targets have been assessed as on target (green).

RUSSELL BANKS,
Orbis Chief Internal Auditor

Contact Officers: Nigel Chilcott, Audit Manager Tel No. 01273 481992
Email: nigel.chilcott@eastsussex.gov.uk

BACKGROUND DOCUMENTS:

Internal Audit Strategy and Annual Plan 2018-19

Internal Audit and Counter Fraud Quarter 3 Progress Report 2018/19

CONTENTS

- 1. Summary of Completed Audits**
- 2. Counter Fraud and Investigation Activities**
- 3. Action Tracking**
- 4. Amendments to the Audit Plan**
- 5. Internal Audit Performance**

1. Summary of Completed Audits

Surveillance Cameras

1.1 The Protection of Freedoms Act 2012 introduced the regulation of public space surveillance cameras in England and Wales. As a result, a surveillance camera Code of Practice was issued by the Secretary of State through the Surveillance Camera Commissioner (SCC) to ensure that the use of cameras in public places is regulated and only used in pursuit of a specified purpose. The code came into force in August 2013 and seeks to balance the need for cameras in public places with individuals' rights to privacy.

1.2 Surveillance camera systems are defined under section 29 of the Protection of Freedoms Act 2012 to include: closed circuit television (CCTV), automatic number plate recognition (ANPR) systems, body worn cameras, drones and any other systems for recording or viewing visual images for surveillance purposes. The Council operates a number of surveillance camera systems in Council buildings to assist with public safety and security and to protect property.

1.3 The purpose of this review was to provide assurance that:

- deployment of surveillance camera systems in public spaces is effective, proportionate and transparent;
- the use of new and existing surveillance camera systems complies with the Surveillance Camera Commissioner's code of practice; and
- personal information captured from surveillance camera systems is managed in accordance with the requirements of the General Data Protection Regulation (GDPR) and the Data Protection Act (DPA).

1.4 Whilst areas of good practice were identified during our work, we found a number of opportunities for improvement in control and we were, therefore, only able to provide an audit opinion of **partial assurance**.

1.5 The key areas for improvement were the need for:

- the Council to strengthen its awareness of the numbers of cameras deployed, and also to nominate an officer as a single point of contact to oversee all of its surveillance systems and ensure they comply with the Commissioner's Code of Practice and Council policies;
- a Privacy Impact Assessment to be carried out for all new and existing surveillance camera systems;
- camera systems to avoid recording conversations unless there is strong justification;

- a Public Space Surveillance (CCTV) Security Industry Authority (SIA) licence for Council officers who carry out licensable activities in respect of surveillance technology; and
- all surveillance camera systems to be configured to delete footage automatically after 14 days unless there is a justifiable reason to retain it.

1.6 Timely actions have been agreed with management to address these issues and a follow-up audit is scheduled for 2019/20 to assess the extent to which the agreed actions have been implemented.

SAP Application Controls

1.7 The SAP system is the Council's key software system for its financial management, budgeting and reporting functions, processing payments to employees, suppliers and the billing of revenue.

1.8 SAP is a mission critical system at the Council and there are risks that inaccuracy or lack of availability of SAP would prevent receipt and disbursement of cash, as well as producing inaccurate management information. There are in excess of 900 active users of the system.

1.9 Responsibility for technical SAP support rests with the Orbis Information Technology and Digital (IT&D) teams based in Kingston and Lewes.

1.10 The purpose of this audit was to provide assurance that:

- system access is restricted to appropriately authorised individuals and the permissions provided to those users are in line with job functions;
- data processed through interfaces is authorised, accurate, complete, securely processed and written to the appropriate file;
- outputs produced by the system are complete, accurate, reliable, distributed on time and with confidentiality where appropriate;
- system updates and enhancements are performed in a consistent manner and subject to sufficient testing and authorisation before implementation; and
- appropriate support arrangements are in place to manage changes within the system.

1.11 In completing this work, we were able to provide an opinion of **reasonable assurance**. We found that robust arrangements are in place to ensure the accuracy, completeness and validity of data transferring through interfaces and that system updates are introduced in a controlled manner.

1.12 However, a small number of opportunities to improve the control environment were identified. These included the need to:

- monitor and review users' access on a regular basis to reduce the risk of unauthorised or inappropriate access;
- strengthen and document the process for authorising access to restricted system roles to prevent users being assigned roles without prior approval; and
- document the change request process for SAP to reflect the transfer of responsibility for technical support to IT&D (from an external provider).

1.13 Appropriate actions to address the findings of this review have been agreed with management in a formal action plan.

HR/Payroll

1.14 HR/Payroll is a key financial system and is one of the largest areas of Council expenditure. The average gross monthly salary cost for ESCC for the 2017/18 financial year was £18.28 million, a reduction of £1.3m on the previous year.

1.15 The Council's HR/Payroll Department is responsible for ensuring that the service complies with all relevant statutory rules and regulations. Pay administration is a complex process governed by various acts, policies, directives and guidelines. Effective internal controls are necessary for this department to function effectively, efficiently and within the parameters set by management.

1.16 At the beginning of 2017/18, 11,120 staff were employed by the Council, including those at maintained schools.

1.17 The purpose of the audit was to provide assurance that:

- accurate payments are made in a timely manner to bona fide employees;
- duties for recording and processing transactions are clearly defined and segregated;
- all changes in establishment are properly authorised and controlled; and
- the payroll is verified for completeness and accuracy prior to payment, and payroll costs are accounted for correctly in the main payroll system.

1.18 As a result of our work, we were able to provide an opinion of **substantial assurance**. We found that salary payments, including the relevant statutory and voluntary (e.g. pension) deductions are made correctly and that appropriate reconciliations take place between control accounts and the general ledger to ensure the accuracy of payments and their recording in the accounting system. We also found

that appropriate segregation of duties is in place throughout the payroll system to reduce the risk of fraud or error.

1.19 A small number of opportunities to improve the control environment were, however, identified. These included the need to:

- reinforce the importance for staff to cross-check information on contract letters before they are issued to ensure that a high level of accuracy is maintained;
- strengthen the existing controls for evidencing Disclosure and Barring Service (DBS) checks before a new employee starts working in a role where safeguarding is an essential requirement (though we were able to confirm that the checks themselves are taking place); and
- improve consistency in the completion of checklists and task documentation to provide a clear audit trail supporting the accuracy of information held by the payroll system.

1.20 Management has agreed appropriate action to address these issues.

Cultural Compliance – Business Operations

1.21 Business Operations delivers HR and Finance transactional services on behalf of each of the councils within the Orbis partnership, including procure to pay, accounts receivable, recruitment support and pensions administration. The purpose of the audit was to provide assurance that:

- all key activities (including recruitment, staff pay and allowances, travel and expenses, leave, sickness absence, declarations of interest and gifts and hospitality) undertaken within Business Operations are conducted in accordance with policies and procedures and comply with basic internal controls; and
- robust management arrangements are in place and all members of staff are subject to appropriate management and supervision.

1.22 Whilst we found instances of good practice, we were only able to provide **partial assurance** owing to the fact that we found levels of non-compliance with Council policies and procedures in the majority of areas reviewed. This was of particular concern given that some staff within this service have more privileged access permissions within SAP, giving them greater opportunity to circumvent certain controls.

1.23 The main areas for improvement related to the need to ensure that:

- payments of additional allowances to members of staff in Business Operations are supported by appropriate documentation and evidence of approval, in the same way as all other council staff;

- all staff complete declarations in the register of interest in accordance with ESCC policy;
- newly appointed members of staff in Business Operations complete the compulsory induction training courses; and
- valid receipts are obtained and retained by Business Operations staff, for both P-card transactions and business mileage claims, in accordance with HMRC requirements.

1.24 A comprehensive action plan has been agreed with management to address these issues and a follow-up review will be undertaken in 2019/20.

Treasury Management

1.25 Treasury management is defined as 'the management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks'.

1.26 As at 30 June 2018, the Council had £248 million of investments and it is estimated that the investments will provide income of approximately £1.8 million during the financial year 2018/19. The majority of investments are fixed deposits with a variety of UK and foreign financial institutions under the guidance of the Council's external treasury adviser (Link Asset Services).

1.27 The purpose of the audit was to provide assurance that controls are in place to ensure that:

- the aims and objectives of treasury management activities are formally approved in a Treasury Management Strategy and are aligned to the Council Plan;
- all treasury management transactions are approved in line with the Treasury Management Strategy, are recorded accurately in the accounts and documentation is retained to substantiate all lending and borrowing decisions;
- cash-flow is adequately planned so that there is sufficient cash to meet the Council's financial obligations;
- funds are invested in only those counterparties that meet the Council's creditworthiness criteria and comply with the maximum investment limits with any given counterparty. Monies are transferred only in accordance with approved policy and there is satisfactory internal control in the money transfer systems; and
- where financial institutions' credit ratings fall below the agreed investment ratings within the Treasury Management Policy, action is taken to minimise loss on investments.

1.28 As a result of our work, we were able to provide an opinion of **substantial assurance**. A Treasury Management Strategy is in place and is regularly monitored. Clear investment criteria have been set out and these are complied with. Cash-flow and performance is reviewed and monitored regularly and access to the Council's banking system is appropriately controlled.

1.29 Only one minor area for improvement was identified and this related to the need to strengthen records relating to treasury management transactions to improve the audit trail and evidence of appropriate checks being carried out.

Troubled Families

1.30 The Troubled Families (TF2) programme has been running in East Sussex since January 2015 and is an extension of the original TF1 scheme that began in 2012/13. The programme is intended to support families who experience problems in certain areas, with funding for the local authority received from the Department for Communities and Local Government (DCLG), based on the level of engagement and evidence of appropriate progress and improvement.

1.31 Children's Services submit periodic claims to the DCLG to claim grant funding under its 'payment by results' scheme. The DCLG requires Internal Audit to verify 10% of claims prior to the Local Authority's submission of its claim. We therefore reviewed 21 of the 211 families included in the August/October 2018 grant.

1.32 In completing this work, we found that valid 'payment by results' (PBR) claims had been made and outcome plans had been achieved and evidenced. All of the families in the sample of claims reviewed had firstly met the criteria to be eligible for the TF2 programme and had either achieved significant and sustained progress and/or had moved from out of work benefits into continuous employment. We therefore concluded that the conditions attached to the TF2 grant determination programme had been complied with.

Transition of Young People into Adult Social Care

1.33 The Transition Service based in Adult Social Care (ASC) provides support and advice for young people with severe and enduring disabilities through the process of moving from children's to adult services. New joint working protocols between adult services, children's services and other agencies have recently been implemented to help ensure a smooth transition for all service users into adult social care. The main purpose of this audit was to seek assurance that:

- governance arrangements ensure statutory duties are met in accordance with the Care Act 2014, including Transition Assessments and the approval of care packages;

- joint planning, communication and working protocols ensure a smooth transition into adult social care for service users; and
- costs associated with care packages are identified and allow for effective financial monitoring and planning.

1.34 As a result of our work, we were able to provide an opinion of **reasonable assurance** over the key controls in place. Governance arrangements are effective in ensuring that key statutory duties are met. Planning, communication and working protocols between adult's and children's services and other agencies, including a recently implemented Transition Pathway, are effective to prioritise and manage caseloads, with annual reviews taking place to support the acceptance of new referrals into the service.

1.35 Some areas for improvement were identified, including the need to:

- utilise fully the functionality available in both the Children's and Adult's Social Care Information Systems (LCS/LAS);
- improve the monitoring of the Community Care Budget to allow management to have greater scrutiny over expenditure; and;
- improve processes for the audit of case files and client feedback.

1.36 All the findings arising from our review have been agreed with management in a formal action plan.

Procurement Controls

1.37 A number of investigations across the Orbis footprint have highlighted areas where more robust challenge from the Procurement Team, acting as gatekeeper for the procurement process, might have ensured a more compliant process was followed, delivered better value for money and reduced the risk of external challenge. We, therefore, took the opportunity to highlight these to each of the sovereign authorities and used the lessons learned to assist in driving improvement across the partnership.

1.38 It should be noted that the issues we found have been compiled from the three investigations that, by their nature, only dealt with tenders where problems had arisen; i.e. instances where officers had not complied with controls. As such, they should not be taken as representative of procurement activity as a whole and no formal audit opinion was therefore given.

1.39 The key opportunities for improvement related to:

- the need for the Procurement Team to be involved at the outset of tendering exercises and, if possible, to avoid changes to personnel in the middle of tenders (though this may be difficult to avoid if staff leave the authority);
- the use of more senior and experienced Procurement personnel to support tenders in some instances;
- the need to identify more consistently instances where procuring officers (i.e. client officers outside the Procurement Team) have a conflict of interest and to follow up and challenge any potential conflicts that have been declared more effectively;
- educating officers across the Council to promote compliance with Contract Standing Orders as well as promoting their existence and significance more broadly;
- improving the robustness with which tenders are evaluated and ensuring that any amendments to bids are managed consistently and fairly;
- ensuring all meetings with suppliers are documented to promote transparency and fairness; and
- highlighting the importance of maintaining good working relations with suppliers, managing bidders' expectations and, thereby, forestalling complaints by unsuccessful tenderers.

1.40 A detailed management action has been agreed across the partnership to resolve these issues and promote good procurement practice.

Pensions Administration – Annual Benefit Statements Regulatory Breach

1.41 Internal Audit was requested to review controls on the issuing of Pension Fund Annual Benefit Statements (ABS) to members of the East Sussex Pension Fund after it transpired that around 2,500 East Sussex Pension Fund members' ABS had not been sent out in accordance with statutory requirements in 2018. This was the fourth consecutive year that this regulation had been breached.

1.42 We found that that a number of errors in data had prevented ABS being produced for the 2,500 members. Our work highlighted the need to ensure that:

- all data errors are investigated and resolved;
- staff responsible for the administration of ABS are adequately supervised;
- ABS actually sent out are reconciled to the number expected to be sent out; and
- an appropriate management sign-off should be in place to confirm that the task has been satisfactorily completed.

1.43 Our findings in this area were reported to management and action is being taken to ensure that the above lessons learnt are properly acted upon to ensure there is no repetition. We will review the arrangements for issuing ABS to Pension Fund members as part of our 2019/20 internal audit work in relation to the Pension Fund. We also understand that ABS have now been sent out to all members for 2018.

Non-Household Waste Charging Scheme

1.44 Under the Environmental Protection Act 1990, the Council is required to provide residents with reasonably accessible Household Waste and Recycling Sites (HWRS) for the free disposal of household waste. However, the Council is not required to accept and dispose of waste that is classified as industrial waste (construction, improvement, repair, alteration or demolition works, including preparatory works) for free although, in recognition that residents often create these non-household wastes (i.e. rubble and soil, plasterboard, asbestos) as a by-product of landscaping, repair or building projects etc. the Council has decided to continue to offer a service, but to levy a charge to cover the cost of disposal.

1.45 Cabinet approval was obtained to introduce these disposal charges, and from the 1 October 2018, the Council has been able to charge for the disposal of rubble and soil, plasterboard, asbestos and tyres at all HWRS. It is anticipated that the introduction of the charges will generate cost savings of approximately £420k per year for the Council.

1.46 The purpose of this review was to provide independent assurance over:

- the pricing model used to inform the cost of disposing of non-household waste to the public; and
- the adequacy of controls in place for managing the key risks associated with charging for the disposal of non-household waste.

1.47 In providing an audit opinion of **reasonable assurance**, we found that the pricing model had been appropriately configured to cover relevant operational and disposal costs of industrial waste delivered by residents to HWRS. Assumptions made in the model were found to be based on reasonable data and the charges set had received appropriate approval.

1.48 Some areas for improvement in control were, however, identified, including opportunities to:

- Complete an annual review of charges to ensure that pricing remains appropriate; and
- Undertake checks of monthly income received and investigate discrepancies.

1.49 Actions to address the above areas were agreed with management.

2. Counter Fraud and Investigation Activities

Proactive Counter Fraud Work

2.1 The Orbis IA structure came into effect from 1st April 2018. The integrated structure was designed to deliver resilience, flexibility and quality, along with specific specialisms. A key strand of the structure was the formation of a counter fraud team that would deliver both reactive and proactive counter fraud services across the partnership. Work to date has focussed on the following areas:

National Fraud Initiative Exercise

2.2 The results from this exercise were received on 31 January 2018 and will be prioritised for review over the coming months. Periodic updates on the outcomes from this work will be provided as part of future internal audit progress reports.

Counter Fraud Policies

2.3 Each Orbis partner has in place a Counter Fraud Strategy that sets out their commitment to preventing, detecting and deterring fraud. The Counter Fraud Team is in the process of reviewing the sovereign strategies to align with best practice and to ensure a robust and consistent approach to tackling fraud. As a priority, the Anti Money Laundering policies have recently been reviewed and updated to reflect recent changes in legislation.

Fraud Risk Assessments

2.4 Fraud risk assessments have been consolidated to ensure that the current fraud threat for the Council has been considered and appropriate mitigating actions identified.

Fraud Response Plans

2.5 The Fraud Response Plans take into consideration the fraud risk assessments and emerging trends across the public sector in order to provide a proactive counter fraud programme. These are being reviewed and aligned to deliver an efficient and effective programme of work across the Orbis partners. This will include an increased emphasis on data analytics. The Fraud Response Plans will set out the proactive work plan for the team in 2019/20.

Fraud Awareness

2.6 The team has been rolling out fraud awareness sessions to help specific, targeted services identify the risk of fraud and vulnerabilities in their processes and procedures. Sessions in Adult Social Care and Children's Services are planned for Quarter 4.

Summary of Completed Investigations

Conflicts of Interest at a School

2.7 An audit investigation was undertaken following an allegation of conflict of interest within one of the County's schools, specifically in relation to the appointment and subsequent management of family members. The investigation confirmed that clear conflicts of interest existed and that these were neither properly declared nor effectively managed.

2.8 As part of the investigation, a range of governance weaknesses were identified resulting in suspension of the school's delegated budget and the replacement of the governing body with an Interim Executive Board, run directly by the local authority. This school will now be subject to a full internal audit review during 2019/20 to confirm that a robust control environment is now in place and the issues arising from this investigation have been suitably addressed.

3. Action Tracking

3.1 All high priority actions agreed with management as part of individual audit reviews are subject to action tracking. As at the end of quarter 3, 100% of high priority actions due had been implemented.

4. Amendments to the Audit Plan

4.1 In accordance with proper professional practice, the internal audit plan for the year remains under regular review to ensure that the service continues to focus its resources in the highest priority areas based on an assessment of risk. Through discussions with management, the following reviews have been added to the audit plan during the year:

- Property Disposals
- Pension – Annual Benefit Statements
- Non-Household Waste Charging Scheme
- Surveillance Cameras
- Orbis Customer Access Portal
- Pension Fund Strategy
- Purchase To Pay Change Programme
- Procurement - Lessons Learned from Investigations
- SAP Upgrade

4.2 In order to allow these additional audits to take place, the following audits have been removed or deferred from the audit plan and, where appropriate, will be considered for inclusion in the 2019/20 plan as part of the overall risk assessment completed during the annual audit planning process. These

changes are made on the basis of risk prioritisation and/or as a result of developments within the service areas concerned requiring a rescheduling of audits:

- Parking
- Connecting 4 You
- General Ledger
- Supply Chain Management
- IT and Digital Project Management
- Property Investment
- Buzz Active

5. Internal Audit Performance

5.1 In addition to the annual assessment of internal audit effectiveness against Public Sector Internal Audit Standards (PSIAS), the performance of the service is monitored on an ongoing basis against a set of agreed key performance indicators as set out in the following table:

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April	G	Approved by Audit Committee on 22 March 2018
	Annual Audit Report and Opinion	By end July	G	2018/19 Annual Report and Opinion approved by Audit Committee on 13 July 2018
	Customer Satisfaction Levels	90% satisfied	G	100%
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	G	75.4% completed to draft report stage by end of Q3 (against a Q3 target of 67.5%)
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	G	January 2018 – External assessment by the South West Audit Partnership gave an opinion of ‘Generally Conforms’ – the highest of three possible rankings
	Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	G	No evidence of non-compliance identified
Outcome and degree of influence	Implementation of management actions agreed in response to audit findings	95% for high priority agreed actions	G	100%
Our staff	Professionally Qualified/Accredited	80%	G	85% ¹

¹ Includes part-qualified staff

Audit Opinions and Definitions

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
Minimal Assurance	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

This page is intentionally left blank

Report to: Audit Committee

Date: 25 March 2019

By: Orbis Chief Internal Auditor

Title of report: Internal Audit Strategy 2019/20 and Annual Plan

Purpose of report: To present the Council's Internal Audit Strategy 2019/20 and Annual Plan

RECOMMENDATIONS

Members are recommended to:

- 1) Review and endorse the Council's Internal Audit Strategy 2019/20 and Annual Plan**
-

1. Background

1.1 The Council's Internal Audit Strategy 2019/20 and Annual Plan (Appendix 1) sets out how the Council will meet its statutory requirements for internal audit, as defined within the Accounts and Audit Regulations 2015. The Strategy proposes an approach based on focussing audit resources in those areas where the highest risk to the achievement of the Council's objectives lies. These areas have been identified and prioritised based on the Council's own risk assessment processes (including strategic and departmental risk registers) and following extensive consultation with officers, Members and other stakeholders.

1.2 A workshop was also held with members of the Audit Committee on 30 January 2019 and comments made have been fed into the planning process.

2. Supporting Information

2.1 The Strategy and Plan will be delivered in line with proper internal audit practices as set out within the Public Sector Internal Audit Standards (PSIAS).

2.2 The Internal Audit Charter sets out the scope and responsibility of internal audit. It is attached to this report as Appendix 2.

3. Conclusions and Reasons for Recommendation

3.1 Members are recommended to review and endorse the Internal Audit Strategy and Plan, and the Internal Audit Charter, prior to its submission to Cabinet in April 2019.

RUSSELL BANKS

Orbis Chief Internal Auditor

Contact Officers: Nigel Chilcott, Audit Manager Tel No. 01273 481992
Email: nigel.chilcott@eastsussex.gov.uk

This page is intentionally left blank

Internal Audit Strategy and Annual Audit Plan 2019-2020

1. Role of Internal Audit

1.1 The full role and scope of the Council's Internal Audit Service is set out within the Internal Audit Charter and Terms of Reference, the latest version of which is attached to this Strategy as Appendix 2.

1.2 The mission of Internal Audit, as defined by the Chartered Institute of Internal Auditors (CIIA), is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. Internal Audit is defined as *"an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."*

2. Risk Assessment and Audit Planning

2.1 East Sussex County Council's Internal Audit Strategy and Annual Audit Plan is updated annually and is based on a number of factors, especially management's assessment of risk (including that set out within the strategic and departmental risk registers) and our own risk assessment of the Council's major systems and other auditable areas. This allows us to prioritise those areas to be included within the audit plan on the basis of risk.

2.2 The update of the annual plan for 2019/20 has involved consultation with a range of stakeholders, to ensure that their views on risks and current issues, within individual directorates and corporately, are identified and considered. In order to ensure that the most effective use is made of available resources, to avoid duplication and to minimise service disruption, efforts continue to be made to identify, and where possible, rely upon, other sources of assurance available. The following diagram sets out the various sources of information used to inform our 2019/20 audit planning process:



2.3 In producing the audit plan (which is set out in Annex A to this report) the following key principles continue to be applied:

- All key financial systems are subject to a cyclical programme of audits covering, as a minimum, compliance against key controls;
- Previous reviews which resulted in 'minimal assurance' audit opinions will be subject to a specific follow-up review to assess the effective implementation by management of agreed actions. This will also include a number of previous reviews with a 'partial assurance' opinion where deemed necessary or where the area under review is considered to be of a higher risk nature.

2.4 In addition, formal action tracking arrangements are in place to monitor the implementation by management of all individual high risk recommendations, with the results of this work reported to the Audit Committee on a quarterly basis.

2.5 During the last two years, Surrey County Council, East Sussex County Council and Brighton and Hove City Council have been working together to develop and form the Orbis Partnership, covering a range of business services, including internal audit. This work has resulted in the formation of a single, integrated internal audit service from April 2018, involving three locality based teams supported by two specialist teams in the areas of ICT audit and counter fraud. It is our ambition that this will provide greater resilience and capacity for our partner councils whilst also building on existing high quality services.

3. Key Issues

3.1 In times of significant transformation, organisations must both manage change effectively and ensure that core controls remain in place. In order to respond to the continued reduction in financial resources and the increased demand for services, the Council needs to consider some radical changes to its service offer in many areas.

3.2 Internal Audit must therefore be in a position to give an opinion and assurance that covers the control environment in relation to both existing systems and these new developments. It is also essential that this work is undertaken in a flexible and supportive manner, in conjunction with management, to ensure that both risks and opportunities are properly considered. During 2019/20, a number of organisational and new system initiatives are featured within the audit plan, with the intention that Internal Audit is able to provide proactive advice, support and assurance as these projects progress. These include:

- South East Transport Hub
- Health and Social Care Integration
- New E-Recruitment System
- Travel and Expenses Systems

3.3 In recognition that in some cases, sufficient information regarding the full extent of future changes and associated risks may not yet be known, the 2019/20 audit plan includes a proportion of time classified as 'Emerging Risks'. This approach has been adopted to enable Internal Audit to react appropriately throughout the year as new risks materialise and to ensure that expertise in governance, risk and internal control can be utilised early in the change process.

3.4 In view of the above, Internal Audit will continue to work closely with senior management and Members throughout the year to identify any new risks and to agree how and where audit resources can be utilised to best effect.

3.5 Other priority areas identified for inclusion within the audit plan include:

- Special Educational Needs and Disabilities Assessment and Commissioning
- Direct Payments
- Business Continuity
- Council Procurement Practices
- Cyber Security
- Network Security

3.6 The results of all audit work undertaken will be summarised within quarterly update reports along with any common themes and findings arising from our work.

4. Counter Fraud

4.1 Managing the risk of fraud and corruption is the responsibility of management. Internal Audit will, however, be alert in all its work to risks and exposures that could allow fraud or corruption and will investigate allegations of fraud and corruption in line with the Council's Anti-Fraud and Corruption Strategy.

4.2 The Chief Internal Auditor should be informed of all suspected or detected fraud, corruption or irregularity in order to consider the adequacy of the relevant controls and evaluate the implication for their opinion on the control environment.

4.3 In addition, Internal Audit will promote an anti-fraud and corruption culture within the Council to aid the prevention and detection of fraud. Through the work of the Counter Fraud Team, Internal Audit will maintain a fraud risk assessment and deliver a programme of proactive and reactive counter fraud services to help ensure that the Council continues to protect its services from fraud loss.

5. Matching Audit Needs to Resources

5.1 The overall aim of the Internal Audit Strategy is to allocate available internal audit resources so as to focus on the highest risk areas and to enable an annual opinion to be given on the adequacy and effectiveness of the Council's framework of governance, risk management and control.

5.2 In addition to this, resources have been allocated to the external bodies for whom Orbis Internal Audit also provide internal audit services, at an appropriate charge. These include Horsham District Council, Elmbridge District Council, East Sussex Fire Authority and South Downs National Park.

5.3 Internal audit activities will be delivered by a range of staff from across the Orbis Internal Audit Service, maximising the value from a wide range of skills and experience available. In the small number of instances where sufficient expertise is not available from within the team, mainly in highly technical areas, externally provided specialist resources will continue to be utilised.

5.4 The following table summarises the level of audit resources expected to be available for East Sussex County Council in 2019/20 (expressed in days), compared to the equivalent number of planned days in previous years. Whilst the overall level of resource was reduced in 2018/19, as part of the Internal Audit contribution towards planned organisational savings, no further significant reductions have been made for 2019/20. This level of resource is considered to be sufficient to allow Internal Audit to deliver its risk based plan in accordance with professional standards¹ and to enable the Chief Internal Auditor to provide his annual audit opinion. It should also be noted that the impacts of the previous year's reduction in resources have been mitigated as far as possible through efficiencies and additional resilience offered from the Orbis partnership, as explained above.

Table 1: Annual Internal Audit Plan – Plan Days

	2015/16	2016/17	2017/18	2018/19	2019/20
Plan Days	1,602	1,532	1,583	1,417	1,400

6. Audit Approach

6.1 The approach of Internal Audit is to use risk based reviews, supplemented in some areas by the use of compliance audits and themed reviews. All audits have regard to management's arrangements for:

- Achievement of the organisation's objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

6.2 In addition to these audits, and the advice on controls given on specific development areas which are separately identified within the plan, there are a number of generic areas where there are increasing demands upon Internal Audit, some of which cannot be planned in advance. For this reason, time is built into the plan to cover the following:

- Contingency – an allowance of days to provide capacity for unplanned work, including special audits and management investigations. This contingency also allows for the completion of work in progress from the 2018/19 plan;
- Advice, Management, Liaison and Planning - an allowance to cover provision of ad hoc advice on risk, audit and control issues, audit planning and annual reporting, ongoing liaison with service management and Members, and audit management time in support of the delivery of all audit work, planned and unplanned.

6.3 In delivering this strategy and plan, we will ensure that liaison has taken place with the Council's external auditors, Grant Thornton, to ensure that the use of audit resources is maximised, duplication of work is avoided, and statutory requirements are met.

¹ Public Sector Internal Audit Standards (PSIAS)

7. Training and Development

7.1 The effectiveness of the Internal Audit Service depends significantly on the quality, training and experience of its staff. Training needs of individual staff members are identified through a formal performance and development process and are delivered and monitored through on-going management supervision.

7.2 The team is also committed to coaching and mentoring its staff, and to providing opportunities for appropriate professional development. This is reflected in the high proportion of staff holding a professional internal audit or accountancy qualification as well as several new members of the team embarking on new apprenticeship training during 2019/20.

8. Quality and Performance

8.1 With effect from 1 April 2013, all of the relevant internal audit standard setting bodies, including CIPFA, adopted a common set of Public Sector Internal Audit Standards (PSIAS). These are based on the Institute of Internal Auditors International Professional Practices Framework and replace the previous Code of Practice for Internal Audit in Local Government.

8.2 Included within the new Standards is the requirement for the organisation to define the terms 'Board' and 'senior management' in the context of audit activity. This has been set out within the Internal Audit Charter, which confirms the Audit Committee's role as the Board.

8.3 The PSIAS require each internal audit service to maintain an ongoing quality assurance and improvement programme based on an annual self-assessment against the Standards, supplemented at least every five years by a full independent external assessment. The outcomes from these assessments, including any improvement actions arising, will be reported to the Audit Committee, usually as part of the annual internal audit report. For clarity, the Standards specify that the following core principles underpin an effective internal audit service:

- Demonstrates integrity;
- Demonstrates competence and due professional care;
- Is objective and free from undue influence (independent);
- Aligns with the strategies, objectives, and risks of the organisation;
- Is appropriately positioned and adequately resourced;
- Demonstrates quality and continuous improvement;
- Communicates effectively;
- Provides risk-based assurance;
- Is insightful, proactive, and future-focused;
- Promotes organisational improvement.

8.4 In addition, the performance of Orbis Internal Audit continues to be measured against key service targets focussing on service quality, productivity and efficiency, compliance with professional standards, influence and our staff. These are all underpinned by appropriate key performance indicators as set out in Table 2 below.

8.5 At a detailed level each audit assignment is monitored and customer feedback sought. There is also ongoing performance appraisals and supervision for all Internal Audit staff during the year to support them in achieving their personal targets.

8.6 In addition to the individual reports to management for each audit assignment, reports on key audit findings and the delivery of the audit plan are made to the Audit Committee on a quarterly basis. An Annual Internal Audit Opinion is also produced each year.

8.7 Whilst Orbis Internal Audit liaises closely with other internal audit services through the Sussex and Surrey audit and counter fraud groups, the Home Counties Chief Internal Auditors' Group and the Local Authority Chief Auditors' Network, we are continuing to develop joint working arrangements with other local authority audit teams to help improve resilience and make better use of our collective resources.

Table 2: Performance Indicators

Aspect of Service	Orbis IA Performance Indicators	Target
Quality	<ul style="list-style-type: none"> Annual Audit Plan agreed by Audit Committee Annual Audit Report and Opinion Satisfaction levels 	By end April To inform AGS 90% satisfied
Productivity and Process Efficiency	<ul style="list-style-type: none"> Audit Plan – completion to draft report stage by 31 March 2020 	90%
Compliance with Professional Standards	<ul style="list-style-type: none"> Public Sector Internal Audit Standards Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act 	Conforms Conforms
Outcomes and degree of influence	<ul style="list-style-type: none"> Implementation of management actions agreed in response to audit findings 	97% for high priority
Our Staff	<ul style="list-style-type: none"> Professionally Qualified/Accredited 	80%

Russell Banks
Orbis Chief Internal Auditor

DRAFT INTERNAL AUDIT PLAN

2019/20



Planned Audit Reviews

Review Name	Outline Objective
Schools	We will continue our audit coverage in schools which will involve a range of assurance work, including key controls testing in individual schools, follow-ups of previous audit work and themed reviews. We will also work with our Orbis partners to provide information bulletins and guidance for schools on risk, governance and internal control matters.
Parking	A review to assess the various aspects of ESCC parking arrangements, where there are risks of invalid payments, poor performance of contractors and also inadequate income collection procedures, resulting in financial loss to the Authority. The audit will include contract management, budget and financial management and income collection.
Transport for the South East	Transport for the South East is a sub-national transport body created to improve the transport network and grow the economy of the whole South East area. It is currently bidding to achieve statutory status. ESCC is the accountable body and there are clear financial and reputational risks associated with this. We will therefore complete a review of the governance and financial management arrangements in place once statutory status has been achieved.
Children Care Assessment Process	To complete an audit of children care assessments and the management of care provision. This will include looking at arrangements for the commissioning and procurement of care, cost identification and forecasting, financial monitoring and reporting, and the arrangements for reviewing care packages over time to ensure they remain effective in delivering care needs and managing costs.
Commissioning of Adult Social Care Services	A review of social care commissioning and contract management arrangements within the Adult Social Care Department to provide assurance that roles and responsibilities are sufficiently clear and robust to deliver the required outcomes and to maximise efficiency within the process.
Health and Social Care Integration	Continued audit advice, support and assurance in relation to the integration of health and social care. We will work with Adult Social Care and Finance colleagues to identify key areas of support to help provide assurance that a sufficiently robust framework of control exists in this complex and changing area.

DRAFT INTERNAL AUDIT PLAN

2019/20



Review Name	Outline Objective
Direct Payments	A review to examine the system of control associated with the administration, payment and monitoring of direct payments to social care clients, following the transfer of management arrangements in this area from Business Operations to the Adult Social Care Department.
Declaration of Interests and Gifts/Hospitality, and Secondary Employment	This audit will assess the arrangements in place within the Council to manage staff declarations of interest and gifts and hospitality. This will include an assessment of compliance with corporate policy and will seek to confirm that declarations made are appropriately managed. In addition, we will also review the adequacy of arrangements within the Council to identify and manage staff secondary employment.
Business Continuity	A review to examine the adequacy and effectiveness of business continuity arrangements across the Council, covering issues such as roles and responsibilities, identification of business critical services, adequacy of response plans, communication, testing and review. As part of this, business continuity risks specifically associated with Brexit, and the Council's preparation for these, will be assessed.
Procure to Pay	To review the processes and key controls relating to the accounts payable system, including those in place for ensuring the accuracy of vendor details, the processing of invoices, goods receipting and promptness of payments.
Accounts Receivable	To review the processes and key controls relating to the accounts receivable system, including those in place for ensuring the accuracy of customer details, completeness, accuracy and timeliness of invoicing, recording and matching payments to invoices, and debt recovery.
HR/Payroll	To review controls in relation to the staff payment system, including those relating to starters, leavers, temporary and permanent payments, variations of pay, overpayments and pre-employment checks.
Pensions Fund Administration - Process and Systems	We will review controls over the calculation and payment of pension benefits, transfers to and from the Pension Fund and the collection and recording of pension contributions from scheduled and admitted bodies.
Pension Fund - Compliance with Regulatory Requirements	A review of the effectiveness of management assurance processes to ensure compliance with statutory and regulatory requirements.

DRAFT INTERNAL AUDIT PLAN

2019/20



Review Name	Outline Objective
Pension Fund - Governance, Strategy and Investments	We shall review the adequacy of governance arrangements over the East Sussex Pension Fund, to cover strategy and the arrangements to manage investments, including pooling arrangements, and the internal controls of external fund managers.
Treasury Management (TM)	A review to assess the adequacy of key controls and procedures across the Council's Treasury Management arrangements, including cash flow forecasting, segregation of duties, financial investments and use of treasury advisers. This will also include an assessment of the impact of changes as a result of Orbis integration.
General Ledger	A key financial system audit. To review controls in relation to the Council's general ledger, including year-end procedures, journal transfers and bank reconciliation.
Adult Social Care Liquidlogic (LAS) and Controcc	A review to assess the adequacy of controls within the LAS (client information and management system for Adults) and Controcc (the social care payments and billing system).
Children's Social Care Liquidlogic (LCS) and Controcc	A review to assess the adequacy of controls within the LCS (client information and case management system for Children) and Controcc (the social care payments and billing system).
Making Tax Digital	A review of the robustness of the preparations made by the Council for the compulsory digital tax-keeping records from HMRC – Making Tax Digital (MTD) – which come into effect for local authorities on 1 October 2019.
Orbis Integrated Budget Management Follow Up	This review will assess the implementation of the agreed actions arising from the Orbis Integrated Budget Management audit that was completed in 2018/19 and which received an audit opinion of partial assurance. In addition, we will evaluate the effectiveness of budget management arrangements for a sample of individual service budgets within Orbis.
Grants	We will continue to undertake grant certification work where the Authority has bid for grant funding. In many instances, certification is required by the grant funding body prior to reimbursing the funds or prior to applying for further grants. Wherever possible, we will seek to ensure we are able to recover the costs of this work through the bidding process.

DRAFT INTERNAL AUDIT PLAN

2019/20



Review Name	Outline Objective
Commissioning and Delivery of Property Projects	This review will focus on the commissioning, planning, approval and delivery of a sample of projects within the Property Division of Business Services, with a view to providing assurance that they are aligned with the needs of the Council and deliver their objectives within the resources available.
Atrium	Atrium is the property asset management system used by the Council. In previous years', we have provided assurance over the implementation of certain modules of Atrium, highlighting key risks and issues. We will continue this work for any new modules being implemented, and will also review the operation of controls within those elements of the system already in place.
Council Procurement Practices	<p>A review to assess the adequacy and effectiveness of procurement practices across the Council, potentially including:</p> <ul style="list-style-type: none"> • The role of the Procurement team; • Compliance with Procurement Standing Orders, including the use of waivers and the award of contracts; • Supply chain management, supplier resilience, business continuity and the associated risks of Brexit; • Procurement transparency requirements; • Management of social value requirements.
Anti Fraud and Corruption	To cover the investigation of potential fraud and irregularity allegations as well as proactive counter fraud activities, including the National Fraud Initiative (NFI) data matching exercise.
Cultural Compliance	This review will aim to provide assurance over basic management controls within a sample of teams across the organisation, assessing compliance with key council policies and procedures.
E-Recruitment System	Advice and support on controls associated with the new e-recruitment system, TribePad, which is to interface directly into the Council's main financial system, SAP.
Travel and Expenses Follow Up	A follow-up review of the Travel and Expenses audit that was completed in 2018/19 and which received an audit opinion of partial assurance. This will also include audit advice and support into the project to source an automated solution for staff travel and expenses.

DRAFT INTERNAL AUDIT PLAN

2019/20



Review Name	Outline Objective
Cyber Security	The audit will review the Authority's arrangements for protecting its systems and services from cyber-attack, including arrangements for effectively responding to attacks as and when they occur.
Orbis Data Centre	A review of the Orbis data centre to ensure appropriate controls are in place to prevent unauthorised physical and electronic access (including 3rd party access) to data held within the centre. The audit will also consider the effectiveness of controls to protect the servers from fire, electrical and water damage; and review the adequacy of backup arrangements to ensure systems and services are not affected in the event of an outage. Where possible, we will place reliance on assurances already available.
Network Security	Significant changes to the way the network is secured are planned, with these beginning to take effect during 2019/20 and fully established in 2020/21. This audit will review the current network security arrangements, and will critically evaluate the planned changes.
Patch Management	We will review the controls in place to support effective patch management ensuring that patches are tested prior to being applied and that they are applied in a timely manner.
Cloud Computing	From a sample of applications and systems retained in the cloud, we will review the controls in place to manage the security, access, recovery and deletion of the data.
Liquid Logic Application Controls Audit	This review will evaluate the application controls over the Council's major social care systems which make up a significant proportion of its payments to suppliers. The audit will review all major input, processing and output controls and the controls in place to interface with the main payment system and general ledger.
ICT Compliance Frameworks	The Council's application to the Government's Public Sector Network (PSN) Code of Connection (CoCo) provides significant assurance over its ICT governance arrangements. With the demise of the CoCo PSN assessment, we will review the ICT governance arrangements in place and, where appropriate, rely on any other suitable sources of assurance, such as the Cyber Essentials Plus submissions.
Surveillance Cameras	We will review the effectiveness of the controls in place to meet the requirements of the Security Camera Commissioner's Code of Practice. This will include a follow-up of the findings of previous audit work in this area.

DRAFT INTERNAL AUDIT PLAN 2019/20



Review Name	Outline Objective
IT&D Project Management	To review the project management arrangements for a sample of high priority/risk IT&D projects.
Mobile Device Migration	This audit will review the controls for managing the security of mobile devices and the arrangements for securing the data contained on these.
Potential Follow-Up Audits (from quarter 4 work in 2018/19)	This will cover any follow-up audit reviews arising from our work in quarter 4 of 2018/19.

DRAFT INTERNAL AUDIT PLAN 2019/20



Internal Audit Service Management and Delivery

Review Name	Outline Objective
Action Tracking	Ongoing action tracking and reporting of agreed, high risk actions.
Annual Internal Audit Report and Opinion	Creation of Annual Report and Opinion.
Audit and Fraud Management	Overall management of all audit and counter fraud activity, including work allocation, work scheduling and Orbis Audit Manager meetings.
Audit and Fraud Reporting	Production of periodic reports to management and Audit Committee covering results of all audit and anti-fraud activity.
Audit Committee and other Member Support	Ongoing liaison with Members on internal audit matters and attending Audit Committee meetings and associated pre-meetings.
Client Service Liaison	Liaison with clients and departmental management teams throughout the year.
Client Support and Advice	Ad hoc advice, guidance and support on risk, internal control and governance matters provided to clients and services throughout the year.
External Liaison	Liaison with external auditors and other external bodies, including attendance at regional and national audit groups and counter fraud hubs.
Orbis IA Developments	Audit and corporate fraud service developments, including quality improvement and ensuring compliance with Public Sector Internal Audit Standards.
Organisational Management Support	Attendance and ongoing support to organisational management meetings, e.g. Financial Management Team (FMT), Statutory Officers Group (SOG).
Strategy and Annual Audit Planning	Development and production of the Internal Audit Strategy and Annual Audit Plan, including consultation with management and Members.
System Development and Administration	Development and administration of Audit and Fraud Management systems.

INTERNAL AUDIT CHARTER

1. Introduction

This Charter describes for the Council the purpose, authority and responsibilities of the Internal Audit function in accordance with the UK Public Sector Internal Audit Standards (PSIAS).

The PSIAS require that the Charter must be reviewed periodically and presented to “senior management” and “the board” for approval. For the purposes of this charter “senior management” will be the Corporate Management Team (CMT) and the board will be the Audit Committee.

The Charter shall be reviewed annually and approved by CMT and the Audit Committee. The Chief Internal Auditor is responsible for applying this Charter and keeping it up to date.

2. Internal Audit Purpose

The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Internal Audit is defined in the PSIAS as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

Internal Audit supports the whole Council to deliver economic, efficient and effective services and achieve the Council’s vision, priorities and values.

3. Statutory Requirement

Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2015, which require every local authority to maintain an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal auditing standards or guidance.

These regulations require any officer or Member of the Council to

- make available such documents and records; and
- supply such information and explanations;

as are considered necessary by those conducting the audit.

This statutory role is recognised and endorsed within the Council’s Financial Regulations.

In addition, the Council's Section 151 Officer has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's financial affairs. To perform that duty the Section 151 Officer relies, amongst other

things, upon the work of Internal Audit in reviewing the operation of systems of internal control and financial management.

4. Internal Audit Responsibilities and Scope

Annually the Chief Internal Auditor is required to provide to the Audit Committee an overall opinion on the Council's internal control environment, risk management arrangements and governance framework to support the Annual Governance Statement.

Internal Audit is not responsible for control systems. Responsibility for effective internal control and risk management rests with the management of the Council.

Internal Audit activity must be free from interference in determining the scope of activity, performing work and communicating results.

The scope of Internal Audit includes the entire control environment and therefore all of the Council's operations, resources, services and responsibilities in relation to other bodies. In order to identify audit coverage, activities are prioritised based on risk, using a combination of Internal Audit and management risk assessment (as set out within Council risk registers). Extensive consultation also takes place with key stakeholders and horizon scanning is undertaken to ensure audit activity is proactive and future focussed.

Internal audit activity will include an evaluation of the effectiveness of the organisation's risk management arrangements and risk exposures relating to:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Efficiency and effectiveness of operations and activities;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts

5. Independence

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations. Internal auditors should have no operational responsibilities.

Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. The Chief Internal Auditor has direct access to, and freedom to report in their own name and without fear of favour to, all officers and Members and particularly those charged with governance. This independence is further safeguarded by ensuring that the Chief Internal Auditor's formal appraisal/performance review is not inappropriately influenced by those subject to audit. This is achieved by ensuring that both the Chief Executive and the Chairman of the Audit Committee have the opportunity to contribute to this performance review.

All Internal Audit staff are required to make an annual declaration of interest to ensure that objectivity is not impaired and that any potential conflicts of interest are appropriately managed.

6. Appointment and Removal of the Chief Internal Auditor

The role of Chief Internal Auditor is a shared appointment across the 3 Orbis partner authorities (East Sussex County Council, Surrey County Council and Brighton & Hove City Council).

In order to ensure organisational independence is achieved, all decisions regarding the appointment and removal of the Chief Internal Auditor will be made following appropriate consultation with Member representatives from each of the authorities' audit committees.

7. Reporting Lines

Regardless of line management arrangements, the Chief Internal Auditor has free and unfettered access to report to the S151 Officer; the Monitoring Officer; the Chief Executive; the Audit Committee Chairman; the Leader of the Council and the Council's External Auditor.

The Audit Committee will receive reports on a periodic basis – as agreed with the Chair of the Audit Committee – on the results of audit activity and details of Internal Audit performance including progress on delivering the audit plan.

8. Fraud & Corruption

Managing the risk of fraud and corruption is the responsibility of management. Internal Audit will however be alert in all its work to risks and exposures that could allow fraud or corruption and will investigate allegations of fraud and corruption in line with the Council's Anti Fraud and Corruption Strategy.

The Chief Internal Auditor should be informed of all suspected or detected fraud, corruption or irregularity in order to consider the adequacy of the relevant controls and evaluate the implication for their opinion on the control environment.

Internal Audit will promote an anti-fraud and corruption culture within the Council to aid the prevention and detection of fraud.

9. Consultancy Work

Internal Audit may also provide consultancy services, generally advisory in nature, at the request of the organisation. In such circumstances, appropriate arrangements will be put in place to safeguard the independence of Internal Audit and, where this work is not already included within the approved audit plan and may affect the level of assurance work undertaken; this will be reported to the Audit Committee.

In order to help services to develop greater understanding of audit work and have a point of contact in relation to any support they may need, Internal Audit has put in place a set of service liaison arrangements that provide a specific named contact for each service, and regular liaison

meetings. The arrangements also enable Internal Audit to keep in touch with key developments within services that may impact on its work.

10. Resources

The work of Internal Audit is driven by the annual Internal Audit Plan, which is approved each year by the Audit Committee. The Chief Internal Auditor is responsible for ensuring that Internal Audit resources are sufficient to meet its responsibilities and achieve its objectives.

Internal Audit must be appropriately staffed in terms of numbers, grades, qualifications and experience, having regard to its objectives and to professional standards. Internal Auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate ongoing development programme.

The Chief Internal Auditor is responsible for appointing Internal Audit staff and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills. The Chief Internal Auditor may engage the use of external resources where it is considered appropriate, including the use of specialist providers.

11. Due Professional Care

The work of Internal Audit will be performed with due professional care and in accordance with the UK Public Sector Internal Audit Standards (PSIAS), the Accounts and Audit Regulations (2015) and with any other relevant statutory obligations and regulations.

In carrying out their work, Internal Auditors must exercise due professional care by considering:

- The extent of work needed to achieve the required objectives;
- The relative complexity, materiality or significance of matters to which assurance procedures should be applied; and
- The adequacy and effectiveness of governance, risk management and control processes;
- The probability of significant errors, fraud or non-compliance; and
- The cost of assurance in proportion to the potential benefits.

Internal Auditors will also have due regard to the Seven Principles of Public Life – Selflessness; Integrity, Objectivity; Accountability; Openness; Honesty; and Leadership.

12. Quality Assurance

The Chief Internal Auditor will control the work of Internal Audit at each level of operation to ensure that a continuously effective level of performance – compliant with the PSIAS is maintained.

A Quality Assurance Improvement Programme (QAIP) is in place which is designed to provide reasonable assurance to its key stakeholders that Internal Audit:

- Performs its work in accordance with its charter;
- Operates in an effective and efficient manner; and
- Is adding value and continually improving the service that it provides.

The QAIP requires an annual review of the effectiveness of the system of Internal Audit to be conducted. Instances of non-conformance with the PSIAS, including the impact of any such non-conformance, must be disclosed to the Audit Committee. Any significant deviations must be considered for inclusion in the council's Annual Governance Statement.

February 2019

This page is intentionally left blank

Report to: Audit Committee

Date of meeting: 25 March 2019

By: Chief Operating Officer

Title: Orbis Budget Management Audit - Update report

Purpose: To provide an update on the Orbis Budget Management Audit report from the November Audit Committee meeting.

RECOMMENDATIONS

Audit Committee is recommended to:

1) note and comment on the management actions that have been taken in response to the partial assurance provided from the Orbis Integrated Budget Management audit that was undertaken in September 2018.

1 Background

1.1 The Internal Audit and Counter Fraud Quarter 2 Progress Report 2018/19 was presented at the Audit Committee meeting on 22 November, which provided an audit report on Orbis' Integrated Budget Management.

1.2 It was recognised that the integrated budget monitoring and management arrangements were in their infancy and included increased complexity as it required monitoring across the three Councils' separate financial systems.

1.3 At that stage, an audit opinion of Partial Assurance was given, recognising that there were some weaknesses in the system of control and compliance.

1.4 The Audit Committee requested that they were provided with an update report on progress since this Audit from September 2018.

2 Supporting information

2.1 Appendix 1 provides an update on the management actions taken to mitigate the areas of partial assurance highlighted in the audit report.

2.2 A follow up audit will be included in Q1 of the Internal Audit Plan in 2019, which will be reported to the September meeting of the Audit Committee.

3. Conclusion and reasons for recommendations

3.1 Audit Committee is recommended to note and comment on the management actions that have been taken in response to the partial assurance provided in the audit undertaken on Orbis Integrated Budget Management.

KEVIN FOSTER
Chief Operating Officer

Contact Officer: Louise Lawson, Senior Principal Accountant
Tel. No. 020 8541 7432
Email: louise.lawson@surreycc.gov.uk

This page is intentionally left blank

Ref	Finding	Potential Risk Implication	Priority	Agreed Action	Update
1	<p>Service Budgets</p> <p>In addition to our audit testing, we met with seven budget holders across Orbis to ascertain their understanding of their budget and the budget position. These discussions were held throughout June and July 2018.</p> <p>It was found that there was confusion and a lack of clarity with regards to how their budget was formed. Managers expressed concern that while they knew what their budget total was for the current financial year, where they now have integrated budgets for three authorities, they are unaware of the detail of how these budgets have been formed and this is making it difficult for them to identify budget pressures in the service and to undertake effective budget monitoring.</p> <p>In addition, while budgets have been assigned at a strategic / partnership level, in some areas budget managers are being asked to provide detailed responses at an operational level where budgets have not</p>	<p>Where budget managers do not have clarity with regards to how their budgets are formed, this has potential to reduce the level of budgetary control, with managers unable to identify pressures within the budget therefore increasing the risk of potential over-spends.</p> <p>Where budgets are not assigned at an operational level, there is a risk that managers will not be able to effectively control their budgets as they would have no awareness of whether expenditure is in line with what is expected.</p>	High	<p>Communicate further guidance to Orbis budget managers, explaining the nature and workings of the Inter-Authority Agreement and the Orbis Joint Operating Budget and provide continued in-person finance support during the bedding in period following the recent addition of BHCC fully to the partnership.</p> <p>Many services are currently in the midst of restructures, once implemented this should help add further clarity for budget holders and their new roles and responsibilities.</p> <p>Roll-out of the budget monitoring tool to all budget holders and undertake a programme of learning and feedback to further refine as required.</p> <p>Ensure that budget managers are not holding on to old, now redundant processes.</p>	<p>Created a finance page on Orbis Home providing specific Orbis budget guidance, finance contacts, examples of forecasting tools in each authority and links to financial regulations and MTFP pages in each authority. Officially launched the page on 18 December to all budget managers and those directly involved with budgets.</p> <p>This page will now be maintained and new budget managers made aware of it. In addition a specific finance awareness session was delivered on 27 November in Brighton. It is important we continue to raise awareness of the importance of sound financial management and ensure understanding of the Orbis budgets, for example developing training for Orbis budget managers.</p> <p>The budget monitoring tool has been rolled out but will continue to be developed and refined, for example giving budget managers direct access to</p>

Ref	Finding	Potential Risk Implication	Priority	Agreed Action	Update
	been apportioned. Managers have found it difficult to provide responses for forecasting in these circumstances, as while they may have sight of actual expenditure and income, they are not necessarily aware of whether these are in line with what is expected.				<p>it and notifying them of need to update forecast – this involves a significant amount of work in terms of security.</p> <p>The other two points are continual and in the medium term always will be as Orbis undergoes further restructures and change.</p>

Ref	Finding	Potential Risk Implication	Priority	Agreed Action	Update
2	<p>Budget Monitoring Reports</p> <p>Since the integration of Brighton & Hove City Council into the Orbis budget, a new spreadsheet based budget monitoring tool has been designed and created by the Orbis Finance team. This tool combines all the transactional data from the three separate accounting systems and is able to produce budget monitoring reports for both operational and strategic levels.</p> <p>However, the monitoring reports provided to budget managers do not provide information in relation to commitments within the respective accounting systems.</p> <p>While this has been considered standard practice at Surrey County Council, this is not the case for East Sussex County Council and Brighton & Hove City Council, where commitments have historically, and continue to be included in non-Orbis budget monitoring, intended to better aid forecasting.</p> <p>In addition, budget managers do not have</p>	<p>Where the responsible budget managers are not able to approve items of expenditure, there is an increased risk of over-spends against budgets as those approving items may not have sufficient oversight of the budget position.</p> <p>Furthermore, while the level of committed non-staffing expenditure is low level compared to the overall Orbis joint budget, where monitoring reports fail to provide information with regards to commitments, this has potential to reduce the reliability of budget forecasts which increases the risk of unforeseen under or over-spends against Orbis budgets.</p>	Medium	<p>To continue providing commitments in managers' "MoBo" management accounts as now.</p> <p>The level of recorded commitments in the Orbis Operating Budget is relatively immaterial to the overall budget.</p> <p>With the use of the risk based approach to monitoring, including commitments may not have a material impact upon the reasonableness of monitoring and forecasts. The team will continue to explain and give further guidance on the nature of the expenditure in the Orbis Operating Budget.</p> <p>Ensure that approval processes are refined where required to ensure on-going budget accountability and assurance.</p>	<p>MoBo commitments provided.</p> <p>As with action 1 - the team continues to provide guidance on the nature of the expenditure in the Orbis Operating budget.</p>

Ref	Finding	Potential Risk Implication	Priority	Agreed Action	Update
	access to each of the authorities' accounting systems, so it is possible that they would not be aware of all commitments against their budget. As a result, the approval of expenditure within accounting systems will not necessarily be sent for approval to the responsible budget manager, resulting in a reduced level of control both over expenditure approvals and budget management.				

Ref	Finding	Potential Risk Implication	Priority	Agreed Action	Update
3	<p>Changes in Budget Monitoring Process</p> <p>Some budget managers expressed concerns over the change in budget monitoring process from that which they had experienced previously at their sovereign authorities.</p> <p>Managers explained that previous budget monitoring involved one spreadsheet with all the information they needed in one place and provided them with an opportunity to add comments. The new process now involves a number of different spreadsheets, which managers have felt are less detailed and is also making the process more resource intensive for both finance officers and budget managers.</p>	<p>With budgetary information no longer being in one place for budget managers, there is potential that information may be missed or not included in decisions which may increase the risk of budgetary control being less robust.</p> <p>Where the budget monitoring process is becoming more resource intensive, there is a risk that the Councils could be less efficient, with managers being required to spend more time on budget monitoring and less on achieving service objectives.</p>	Medium	<p>Providing services to three organisations rather than just one is inevitably leading to changes in budget manager's responsibilities and is more complex as the transactions are held on three different systems.</p> <p>Roll-out of the budget monitoring tool as per current plans to all budget holders. This tool holds both budgets and actuals in one place. Undertake a programme of communication & learning and seek feedback to further refine as required.</p> <p>The Orbis Finance team will continue working to make things easier for budget managers by explaining the new ways of managing Orbis budgets and addressing their concerns and overcoming cultural resistance where it exists.</p>	As with action 1 - guidance has been provided and the finance team regularly meet budget managers which helps them understand their budgets. The tool continues to be used and a workshop was held to identify potential developments.

Ref	Finding	Potential Risk Implication	Priority	Agreed Action	Update
4	<p>Budget Guidance</p> <p>Budget managers across Orbis receive guidance and support from dedicated finance officers through monthly budget monitoring meetings and any additional correspondence that may be required.</p> <p>Since the integrated budget monitoring exercise was introduced, no formal guidance has been issued to budget managers to explain the information that they are receiving or clarify whether responsibilities around budget monitoring have changed. Furthermore, the assumptions to form a budget have not been documented along with the differences in approach to budget monitoring.</p> <p>Given the change in approach to budget monitoring for some managers across Orbis, the introduction of guidance on the new reporting methodology and changes to the process would help to clarify expectations and responsibilities for budget managers.</p>	<p>With no formal guidance issued to budget managers on the new budget monitoring process, there is a risk that budget managers won't be able to manage their budgets effectively resulting in budgetary control for Orbis being adversely affected.</p>	Low	<p>At the time of the audit, some managers had only been involved in one month of Orbis monitoring, or were responsible for budgets including BHCC services for the first time, or budgets had changed significantly.</p> <p>A priority for the finance team has been to enable budget manager self-sufficiency and significant progress has been made on this with a new tool being used from Period 3 monitoring. As well as ongoing in-person support to budget managers the team will prepare formal written guidance in line with the recommendations.</p>	<p>As with action 1 – further guidance has been provided.</p>

Ref	Finding	Potential Risk Implication	Priority	Agreed Action	Update
5	<p>Measuring Orbis Level of Service</p> <p>In the 2016/17 audit of the Orbis Integrated Budget, an issue was raised regarding the lack of appropriate mechanisms to measure the level of service provided to each of the authorities within Orbis. No progress to rectify this issue has yet been made, nor has the issue been noted on the Orbis risk register.</p> <p>Without the ability to measure output, it becomes increasingly difficult to identify any changes in service levels being provided, which would need to be taken into account should one of the authorities make a decision to increase or decrease its use of Orbis services.</p> <p>Given the continued pressure to make savings across all authorities, by not being able to measure outputs, it makes it difficult to identify whether savings are sustainable or whether a reduction in costs would result in a lower standard of service being provided to authorities.</p>	By not being able to measure outputs for Orbis there is potential risk that it would not be possible to identify whether one or two authorities is in receipt of more usage of services than the other, resulting in Orbis partners being disadvantaged from one another.	Medium	<p>The three Chief Officers will continue to run Business Partner forums, within their own sovereign authorities, in order to monitor the performance of Orbis services received by each partner.</p> <p>This will then be discussed through the Joint Management Board to identify any potential need to react to pressures within one or more of the partner organisations.</p> <p>A performance dashboard will be developed for reporting to the Orbis Joint Committee.</p>	<p>The Performance and Change team in Orbis have been working with the ESCC Policy and Performance team to develop an Orbis Performance Dashboard. This is attached as <u>Appendix A.</u></p> <p>The dashboard is being developed further by incorporating key service performance indicators from each of the 6 Orbis services. This finalised performance dashboard will be completed and a report will go through to the Orbis Joint Committee on 15th April 2019.</p>

Ref	Finding	Potential Risk Implication	Priority	Agreed Action	Update
6	Reviewing the Agreed Contribution Ratio (ACR)	Without processes in place to be able to review and recalculate the ACR there is a potential risk that one or two partners may be subsidising the other, which would result in authorities becoming disadvantaged by the Orbis arrangement.	Medium	<p>Clarification with regards to the occasions when the Agreed Contribution Ratio will be reviewed and adjusted will be documented and agreed by all partners.</p> <p>We expect this to form part of the annual business planning process, so it can be aligned with sovereign budget setting processes, and in the short term, the three partners need to agree a method of how the ACR will be calculated.</p>	The contribution ratio is being recalculated following a formal review of the Partnership. This will be completed in April 2019.

Orbis Performance Highlights – Q2 2018/19 – Orbis People



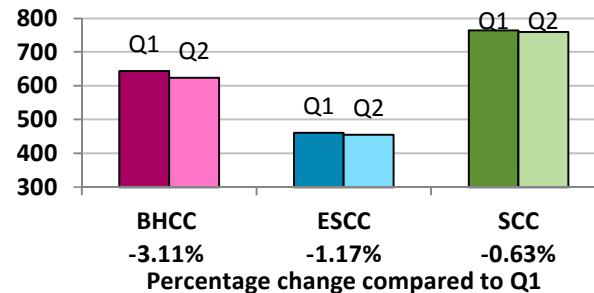
Full Time Equivalent (FTE) staff

There was an average of **1,838.3** FTE employed in Orbis in Q2, this is a reduction of 1.6% compared to Q1

Brighton & Hove had an average of **623.4** FTE

East Sussex **454.8**

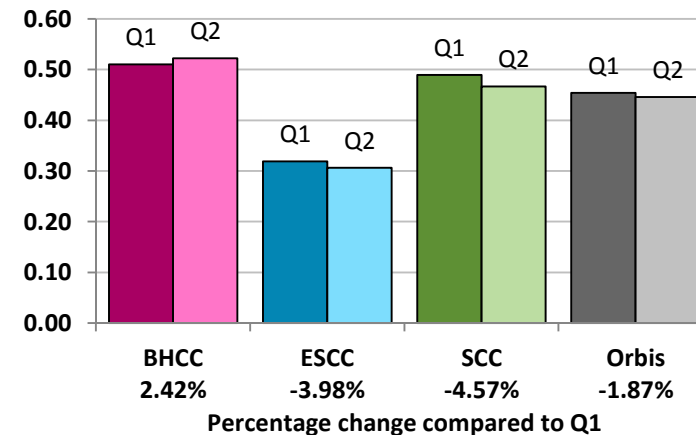
And Surrey **760.2**



Sickness Absence

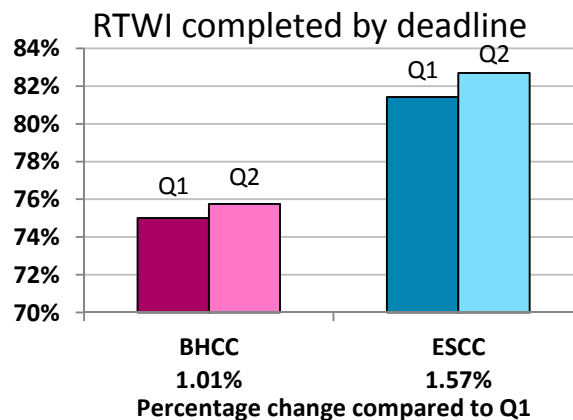


Sickness absence days per FTE



Projected 2018/19 sickness absence days per FTE	
BHCC	6.18
ESCC	3.75
SCC	5.74

Return to work interviews



Surrey don't hold RTWI data

Length of service of leavers

26.3% of staff who left BHCC had less than **1 years' service**, **21.1%** had **1 - 5 years' service** (BHCC figures include staff on temporary contracts)

In ESCC **6.7%** of leavers had less than **1 years' service**, **26.7%** had **1 - 5 years' service**

In SCC **11.8%** of leavers had less than **1 years' service**, **48.6%** had **1 - 5 years' service** (based on 12 month rolling average data)

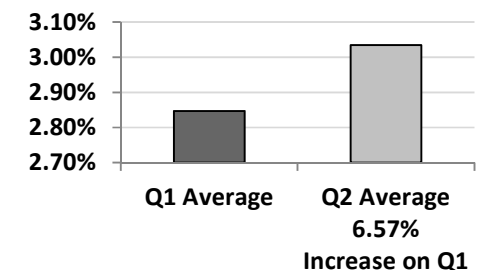
	Length of service of leavers (years)								
	<1	1-5	6-10	11-15	16-20	21-25	26-30	31-35	>35
BHCC	26.3%	21.1%	31.6%	10.5%	5.3%	0.0%	5.3%	0.0%	0.0%
ESCC	6.7%	26.7%	6.7%	40.0%	6.7%	0.0%	0.0%	0.0%	13.3%
SCC	11.8%	48.6%	16.6%	7.8%	8.3%	1.5%	1.5%	0.0%	3.8%



Agency Spend



The amount spent on agency staff increased from **2.85%** of total staff expenditure in Q1 to **3.03%** in Q2. However there was a significant increase to **4.38%** in **September** (there were a high number of agency staff working on projects in BHCC IT&D in September)



Orbis Performance Report – Q2 2018/19 – Orbis People

Headline measures	Orbis total	Brighton & Hove	East Sussex	Surrey
Average employee numbers FTE Q2	1838.33	623.36	454.77	760.20
Sickness absence, average days per FTE	0.45	0.52	0.31	0.47
Return to work interview, % complete	77.91% (ESCC and BHCC only)	75.76%	82.69%	N/A
Length of service of leavers	N/A	31.6% had 6 - 10 years' service	40.0% had 6 - 10 years' service	48.6% had 1 - 5 years' service
Average Agency staff spend	3.03%	N/A	N/A	N/A

Overview

- Data is for Q2 2018/19 - July, August and September 2018
- There is a notable difference in the percentage of staff employed in Business Ops in BHCC compared to ESCC and SCC, as a Unitary Authority BHCC provides extra services within Business Ops e.g. Council Tax and Housing Benefits
- The sickness absence rate increased slightly in BHCC in Q2, when compared to Q1, there were slight decreases in ESCC and SCC
- The Property team had the highest levels of average sickness absence across BHCC and ESCC. In SCC the highest rates were in Finance
- Spending on Agency staff has increased significantly in Q2, however there were a high number of agency staff working on projects in BHCC IT&D in September

Employee numbers

Full Time Equivalent (FTE) members of staff by service						
	Average FTE Q2 2018/19					
	BHCC		ESCC		SCC	
	FTE	% of total	FTE	% of total	FTE	% of total
Business Ops	251.44	40.34%	67.01	14.74%	197.68	26.00%
Finance	56.85	9.12%	74.49	16.38%	91.64	12.05%
HR&OD	78.38	12.57%	43.70	9.61%	84.36	11.10%
IT&D	114.36	18.35%	163.76	36.01%	175.19	23.04%
Procurement	18.25	2.93%	27.68	6.09%	51.09	6.72%
Property	104.08	16.70%	78.13	17.18%	160.25	21.08%
Total FTE	623.36		454.77		760.20	

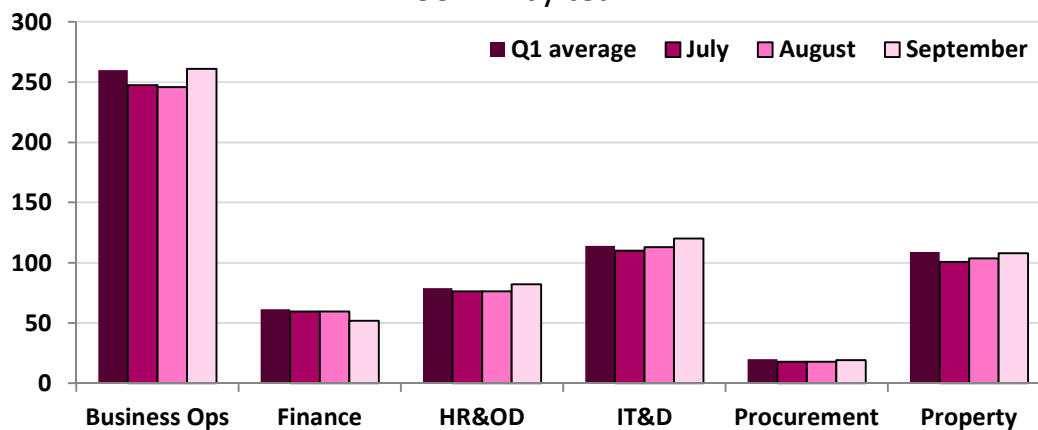
BHCC and ESCC 1 FTE = 37 contract hours per week, SCC 1 FTE = 36 contract hours per week

Figures include vacant posts and are not the budgeted FTE

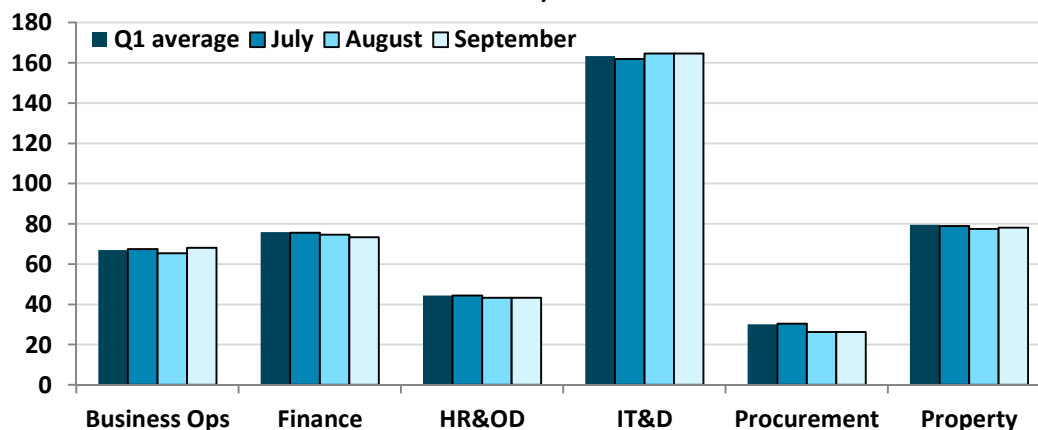
Employee Numbers FTE

- There is a notable difference in the percentage of staff in Business Ops in BHCC compared to ESCC and SCC, as a Unitary Authority BHCC provide extra services within Business Ops e.g. Council Tax and Housing Benefits
- ESCC has fewer FTE in Orbis than BHCC or SCC
- There has been an increase in the amount of FTE in a number of teams in BHCC in Q2
- ESCC IT&D contain a number of partnership roles, which work across the Orbis authorities
- SCC have seen increases in the number of FTE in HR&OD, IT&D and Property, but falls in Business Ops and Finance

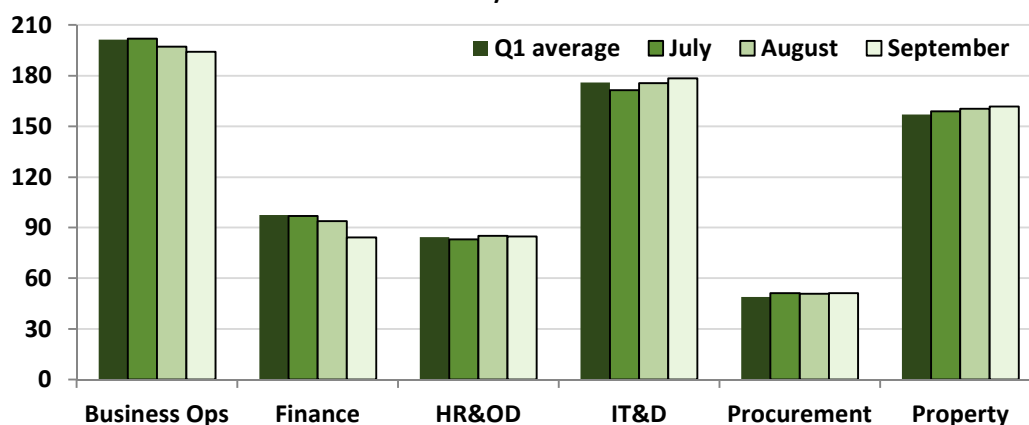
BHCC FTE by team



ESCC FTE by team

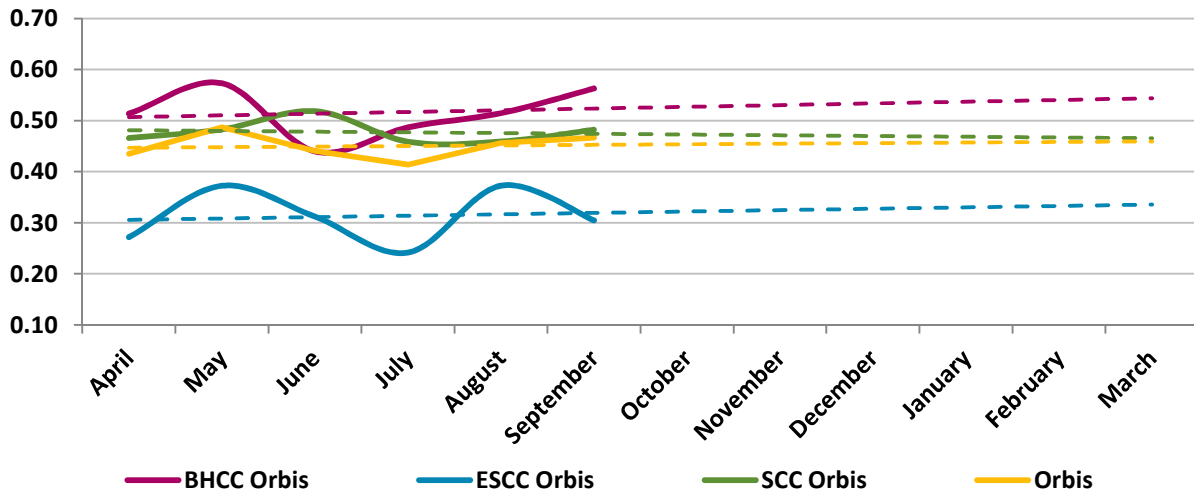


SCC FTE by team



Sickness Absence

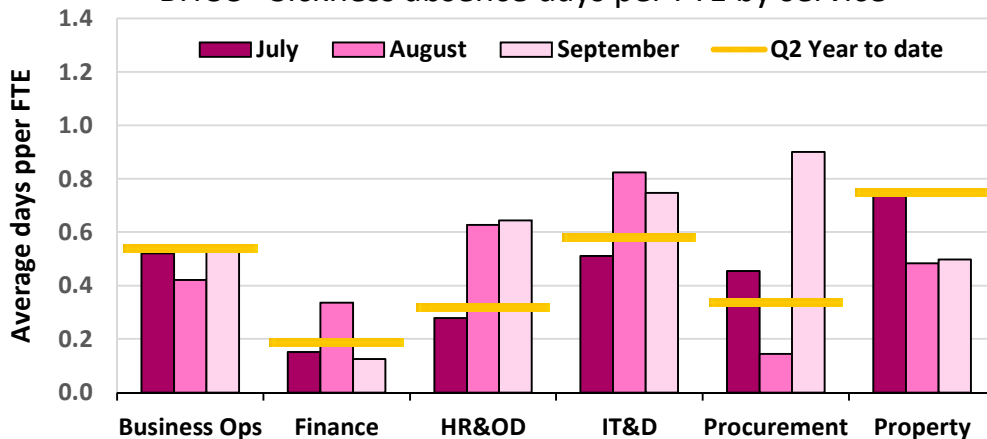
Sickness absence days per month per FTE



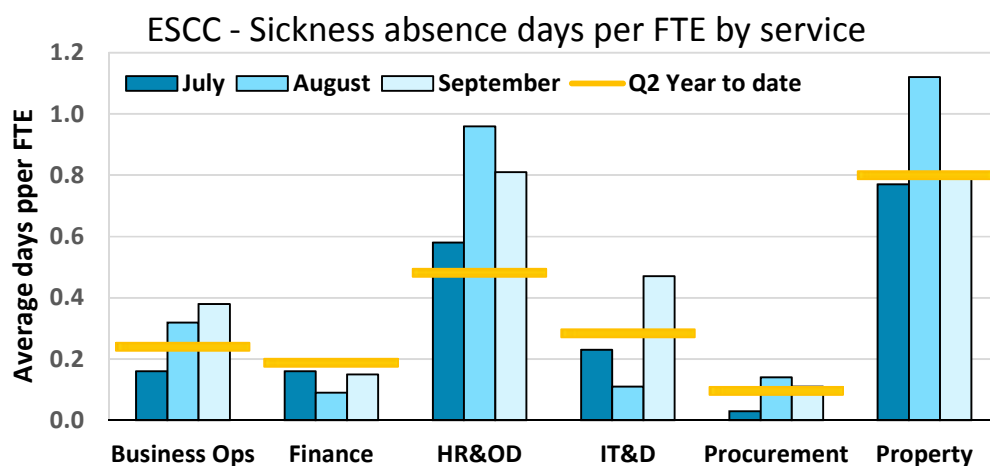
- ESCC has lower sickness rates than BHCC or SCC. BHCC has seen a steady increase in it's sickness rate in Q2

Sickness Absence Sovereign

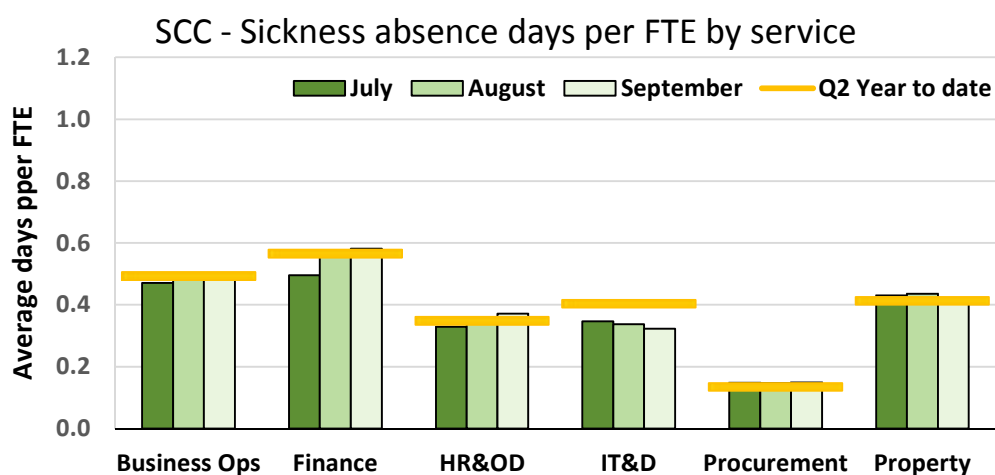
BHCC - Sickness absence days per FTE by service



- Sickness levels have fluctuated across the teams in Q2
- There was a significant increase in sickness in Procurement in September, above the year to date rate
- HR&OD and IT&D have seen sustained increases in sickness absences during Q2, moving them above the year to date rates



- The sickness rate in Finance, in all the months in Q2, was below the year to date rate
- Property and HR&OD had the highest rates of sickness absence in Q2

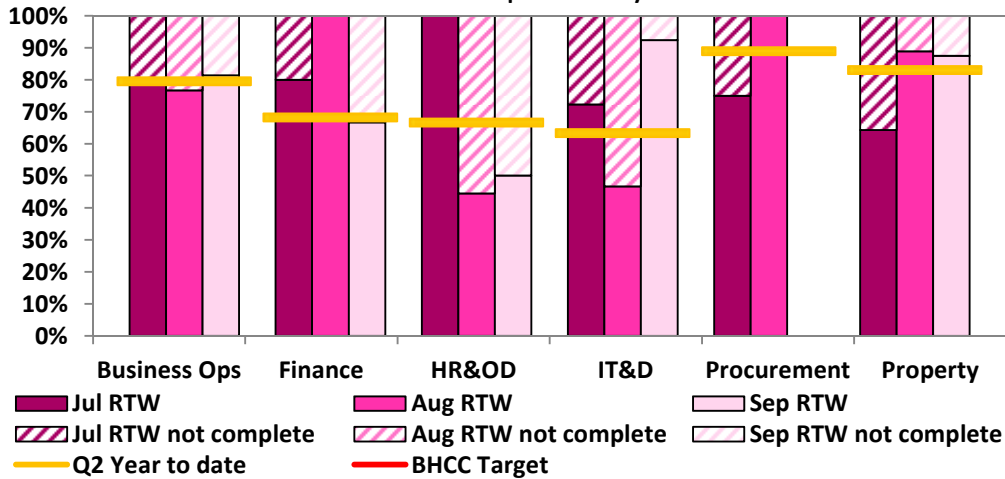


- The sickness absence rate in IT&D was below the year to date rate in all months in Q2
- For all other teams the monthly outturns were very similar to the year to date rate showing there haven't been any significant fluctuations in sickness absence when compared to Q1

Return to Work Interviews (RTWI)

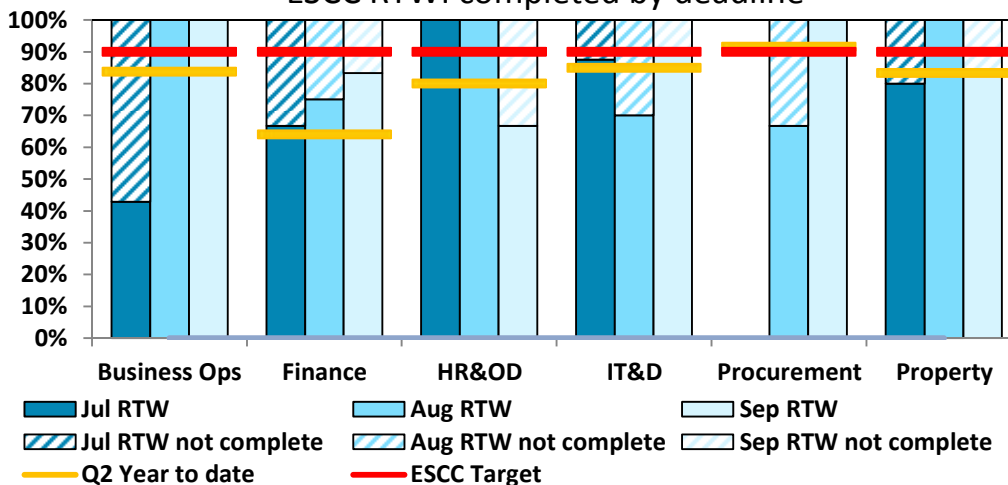
Note: BHCC RTWI compliance is measured against a five working day deadline, ESCC is measured against seven calendar days.

BHCC RTWI completed by deadline



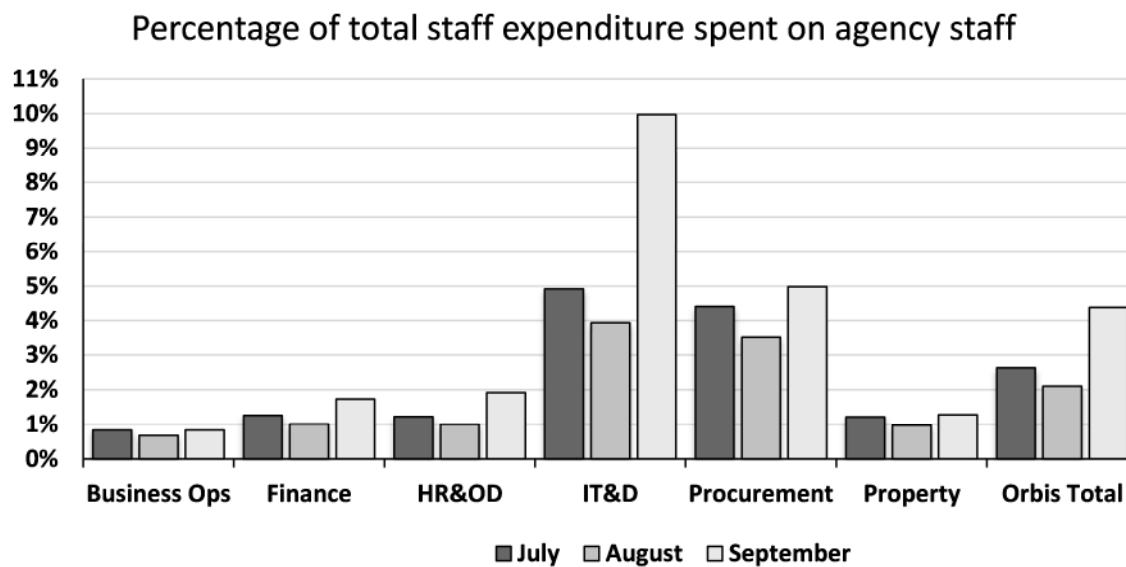
- Two spells of absence in Procurement started in September, however neither of these people had returned to work by the end of the month so there weren't any RTWI in this month
- RTWI compliance has fluctuated significantly in HR&OD during Q2, interestingly compliance has decreased as sickness has increased

ESCC RTWI completed by deadline



- Procurement had one days absence in July, but this fell on 31/07/2018 so the RTWI wasn't due until August, as such there is no RTWI data for Procurement in July
- RTWI compliance in Business Ops increased to 100% in August and September, from 43% in July
- Procurement are the only team during Q1 and Q2 who have exceeded ESCC's target for 90% of RTWIs to be completed by deadline

SCC don't hold RTWI data

Agency spend

- There has been a significant increase in Agency spend in IT&D in September, a number of staff have been employed to work on a project in BHCC
- All teams saw a decrease between July and August, however there were subsequent higher increases in September in all teams

Report to: **Audit Committee**

Date: **25 March 2019**

By: **Chief Operating Officer**

Title of report: **Strategic Risk Monitoring**

Purpose of report: **To update the Committee on current strategic risks faced by the Council, their status and risk controls / responses**

RECOMMENDATION: The Committee is recommended to note the current strategic risks and the risk controls / responses being proposed and implemented by Chief Officers.

1. Background

1.1 Sound risk management policy and practice should be firmly embedded within the culture of the council, providing a proportionate and effective mechanism for the identification, assessment and management of risk. This is especially important in the current climate where there remains considerable uncertainty about the future.

1.2 Robust risk management helps to improve internal control and support better decision-making. To be truly effective, risk management arrangements should be simple and should complement other management activities.

1.3 The corporate risk management function is now provided by the Service Improvement and Risk Manager as part of the Orbis Finance Centres of Expertise.

2. Supporting Information

2.1 The Council's Strategic Risk Register, which is attached as Appendix A, is reviewed by DMT's and CMT on a quarterly basis. The version of the Strategic Risk Register attached relates to Quarter 3 of 2018 / 2019, was reviewed by CMT on 6 February and presented to Cabinet on 5 March.

2.2 The changes made since the risk register was last presented to the Audit Committee on 20 September 2018 are:

- Updated risk controls to:
 - Health (risk 4) – governance arrangements for partnership working with the NHS;
 - Capital Programme (risk 8) – Capital reporting and profiling review;
 - Workforce (risk 9) – implementation of initiatives to address mental health absences; and
 - Recruitment (risk 10) – all controls updated.
- The post control RAG (Red, Amber, Green) rating of Reconciling Policy, Performance and Resource (risk 5) has increased from Amber to Red due to uncertainty over future Government funding.
- A new risk No-Deal Brexit has been added following discussions with the Audit Committee and CMT.

2.3 All other risks have had no changes and no existing risks have been removed from the strategic risk register since the last review.

2.4 We will continue to explore opportunities to further strengthen the council's risk management arrangements and for mitigating our key strategic risks. It is however, important to recognise that in some cases there is an inherent risk exposure over which the Council has only limited opportunity to mitigate or control.

3. Risk Management Activity

3.1 The Service Improvement and Risk Manager is currently reviewing the Council's risk management framework and risk arrangements and will report the updated risk management framework to the next meeting of the Audit Committee.

Kevin Foster
Chief Operating Officer

Contact Officer: Cath Edwards, Service Improvement and Risk Manager
Tel: 020 85419193
Email: Cath.Edwards@surreycc.gov.uk

Local Member: All

Background documents :
None

Strategic Risk Register - Q3 2018/19			
Ref	Strategic Risks	Risk Control / Response and Post Mitigation RAG score	RAG
12	<p>CYBER ATTACK</p> <p>The National Cyber Security Centre (NCSC) has highlighted the substantial risk to British web infrastructure with elevated levels of Cyber Crime being reported against all areas of government.</p> <p>Cyber-attacks often include multi vector attacks featuring internet based, social engineering and targeted exploits against hardware, software and personnel. The remote nature of the internet makes this an international issue and an inevitable risk.</p> <p>Examples of the impact of a Cyber Attack include:</p> <ul style="list-style-type: none"> • Financial fraud related to phishing of executives and finance staff; • Loss of Personally Identifiable Information and subsequent fines from Information Commissioner's Office (4% of global revenue under the new General Data Protection Regulations); • Total loss of access to systems that could lead to threat to life. <p>A successful cyber-attack can shut down operations - not just for a few hours, but rather for multiple days and weeks. The collateral damage, such as information leaks and reputational damage can continue for much longer. Added to that, backup systems, applications and data may also be infected and therefore, of little usable value during response and recovery operations - they may need to be cleansed before they can be used for recovery. This takes time and consumes skilled resources reducing capacity available to operate the usual services that keep the Council working.</p>	<p>Most attacks leverage software flaws and gaps in boundary defences. Keeping software up to date with regular patching regimes; continually monitoring evolving threats and re-evaluating the ability of our toolset to provide adequate defence'. Ongoing discussion and communication with the Info Sec industry to find the most suitable tools and systems to secure our infrastructure.</p> <p>Expanding Security Information and Event Management (SIEM) system capabilities to align with SCC and leverage latest standards of automation, detection and prevention.</p> <p>Development of "Security Advocates". Trained staff that can cascade and share cyber security insights and highlight potential issues into the workforce. Promoting a visible approachable business based security team;</p> <p>Enhancing user awareness - Expanding E-Learning and policy delivery mechanisms to cover Cyber threat, educating staff around the techniques and methods used by active threats. With 77% of all malware installed via email, users to be given learning experiences of phishing at point of use in a safe and secure environment;</p> <p>Providing GDPR training and workshops to cascade vital skills and information to those affected by new Data Protection laws;</p> <p>ESCC servers moved to the Orbis Primary Data Centre for resilience – An accredited Tier 3 environment certified to these standards:</p> <ul style="list-style-type: none"> • ISO 27001 - IT Governance and Information Security Management • ISO 9001 - Quality Standard in Customer Service, Customer Processes, Product Process and Service, Efficiency and Continuous Improvement • ISO 14001 - Environmental Management and Best Practices for Corporate Environmental Responsibility. <p>Disaster Recovery services now to similarly be relocated to a Tier 3 Data Centre environment (Orbis Secondary Data Centre in Guildford).</p>	R
4	<p>HEALTH</p> <p>Failure to secure maximum value from partnership working with the NHS. If not achieved, there will be impact on social care, public health and health outcomes and increased social care cost pressures. This would add pressures on the Council's budget and/or risks to other Council objectives.</p>	<p>Proposals for a new streamlined system of governance arrangements are being developed to work in partnership with the local NHS. With accountability to the Health and Wellbeing Board, this supports a transition to a proposed reset health and social care transformation programme to make further progress on integration, including community health and social care services, as well as strategically managing business as usual and financial recovery across our health and care system. The new arrangements will be formally proposed to Cabinet for decision on 5th March. NHS England has applied formal directions both to NHS Hastings and Rother CCG and NHS Eastbourne, Hailsham and Seaford CCG which require them to develop and implement a financial recovery plan that contributes to achieving financial balance across the whole East Sussex system and ensures services are clinically sustainable as well as financially so. Leadership capacity, governance and wider capacity and capability of the CCGs will also be reviewed. Financial recovery will therefore be the focus of CCG and partnership attention for the rest of the financial year. The ambition of East Sussex remains the same; however the pace of change will inevitably slow due to the need to achieve financial balance.</p>	R
5	<p>RECONCILING POLICY, PERFORMANCE & RESOURCE</p> <p>Failure to plan and implement a strategic corporate response to resource reductions, demographic change, and regional economic challenges in order to ensure continued delivery of services to the local community.</p>	<p>We employ a robust Reconciling Policy, Performance and Resources (RPPR) process for business planning. We have adopted a commissioning approach which means evaluating need and considering all methods of service delivery, which includes working with partner organisations to deliver services and manage demand. The Council Plan sets out targets for a 'One Council' approach to deliver our priorities and is monitored quarterly. The plans take account of known risks and pressures, including demographic changes and financial risks, to design mechanisms to deliver the Council's priorities. Central Government's plans for the future funding of local government services remain undeveloped. It is prudent therefore to continue to plan on the basis of current assumptions.</p>	R

Ref	Strategic Risks	Risk Control / Response and Post Mitigation RAG score	RAG
7	SCHOOLS Failure to manage the expected significant reduction in resources for school improvement from 2017/18 and the potential impacts of changing government policy on education, leading to reduced outcomes for children, poor Ofsted reports and reputational damage	<ul style="list-style-type: none"> • Work closely with schools to build a sustainable system across East Sussex, in order to ensure that the capacity and expertise is available to provide oversight of educational performance and to offer appropriate support and challenge where it is required. • Provide an opportunity for every school to be part of a local Education Improvement Partnership to support their ongoing improvement and for all partnerships to develop to the point where they provide a sustainable network through which all schools and other providers take responsibility for improvement in their local area. • Continue to develop commissioning model of school improvement including reviewing the level of trading by SLES to ascertain what is sustainable within reducing capacity and to identify core services that can be traded. • Continue to build relationships with academies and sponsors, including the Diocese of Chichester, ensure a dialogue about school performance, including data sharing. • Work with academies and maintained schools through the Education Improvement Partnerships to develop system leadership, school to school support and to broker partnerships to reduce pressure on SLES services. • Broker support to academies to address any performance concerns and investigate the feasibility of trading some LA school improvement services with all schools on a full cost recovery basis. • Where academies do not appear to be accessing appropriate support, bring this to the attention of the DfES, who may exercise their intervention powers. • Work with the Regional Schools Commissioner to ensure the work of the RSC and the LA is aligned and that schools have the support they need. • Review SLES activity in relation to our statutory responsibilities. • In 2019 the Department will be preparing a refreshed Excellence for All strategy for publication in September 2019. This will take account of the core offer proposals and the areas of work we plan to reduce subject to the outcome of the core offer consultation. 	R
1	ROADS Wet winter weather, over recent years has caused significant damage to many of the county's roads, adding to the backlog of maintenance in the County Council's Asset Plan, and increasing the risk to the Council's ability to stem the rate of deterioration and maintain road condition.	<p>The additional capital maintenance funding approved by Cabinet in recent years has enabled us to stabilise the rate of deterioration in the carriageway network and improve the condition of our principle road network. However a large backlog of maintenance still exists and is addressed on a priority basis.</p> <p>The County Council's asset management approach to highway maintenance is maintaining the overall condition of roads, despite recent year's winter weather. However, severe winter weather continues to be a significant risk with the potential to have significant impact on the highway network. The recently approved five year capital programme for carriageways 2018/19 to 2022/23, and the six year additional capital programme for drainage and footways 2017/18 to 2022/23 provide the ability to continue to improve condition and build resilience into the network for future winter events.</p> <p>The past winter (2017/18) has been more severe than previous years. We gritted 52,584 km last year and gritted over 98,000 km this year. There were also two periods of snowfall this year. Whilst this was managed well it has led to an increase in carriageway potholes, which will put some additional pressure on the revenue budget as a result.</p> <p>Changes to the grass cutting policy could have an impact on the efficiency of the drainage system, with more material in the drains if it is not managed effectively.</p>	A
13	DEDICATED SCHOOLS GRANT Failure to manage the loss of flexibility in the allocation of the Dedicated Schools Grant and High Needs (HN) Block funding and the potential increased risk to the Council's budget.	<p>The County Council has agreed an approach to mitigate and fund DSG reductions.</p> <p>Through the RPPR process, and building on previous work to offset DSG reductions, funding to offset expected reductions to the highest risk areas has been planned over the next 3 years.</p> <p>For HN block in particular, a significant amount of work has been undertaken, working with schools, to reduce the pressure in this area. The funding of DSG reductions as described above, will also help with this.</p> <p>The on-going RPPR process will continue to part-mitigate this risk.</p>	A

Ref	Strategic Risks	Risk Control / Response and Post Mitigation RAG score	RAG
New	<p>NO-DEAL BREXIT</p> <p>The UK withdraws from the EU with no agreed deal, transition or implementation period leading to disruption in the county, failure to deliver Council services and/or increasing existing areas of risk.</p> <p>Key areas at risk of disruption:</p> <ul style="list-style-type: none"> - Disruption at Newhaven port and across the ESCC road network; - Disruption to waste collection and disposal; - Disruption to fuel supply; - Disruption to service delivery due to staff availability; - Communication with staff, partners and public; and - Procurement and the effect on the supply chain. 	<p>Relevant Council teams are actively monitoring Brexit discussions and developments, considering potential implications/ disruption and developing contingency plans. This work takes place as part of business as usual activity to identify how the national and local context impacts on services. Many of the key areas at risk of disruption are already on the Strategic risk register (Workforce, Recruitment) or departmental risk registers and are subject to business as usual risk management.</p> <p>The Communities, Economy and Transport (CET) Department is leading the assessment of a no deal Brexit from an Emergency Planning and Resilience perspective.</p> <p>Chief Officers are involved in regional and national information and developments in relation to Brexit.</p> <p>To ensure a coordinated response, Brexit planning is a regular item at Corporate Management Team (CMT) meetings, and a short life Brexit Task Group has been set up to avoid unnecessary impact on the Council's usual business. The task group will share actions that are being taken; monitor progress on agreed actions; and identify any common ground to avoid duplication. The task group is comprised of a representative from each department and lead officers from HR, Procurement and Emergency Planning.</p>	A

Ref	Strategic Risks	Risk Control / Response and Post Mitigation RAG score	RAG
8	CAPITAL PROGRAMME As a result of current austerity, the capital programme has been produced to support basic need only and as a result of this there is no resource for other investment that may benefit the County e.g. that may generate economic growth. Additionally there is a risk, due to the complexity of formulas and factors that impact upon them, or changes in these, that the estimated Government Grants, which fund part of the programme, are significantly reduced. There is also a risk that the move from S106 contributions to Community Infrastructure Levy will mean that Council has reduced funding from this source as bids have to be made to Districts and Boroughs. Slippage continues to occur within the programme, which has an impact on the effective use of limited resources.	Governance arrangements have been reviewed and developed with Property for the delivery of Schools Basic Need and capital property works in support of the robust programme delivery of the basic need programme. The Education Sub Board, which in part focuses on future need for schools places, continues to inform the Capital Strategic Asset Board of key risks and issues within the School Basic Need Programme. Regular scrutiny by the Capital Strategic Asset Board, of programme and project profiles (both in year and across the life of the programme) occurs on a quarterly basis. Financial regulations have been updated to reflect the revised governance arrangements. The Board also proactively supports the seeking and management of all sources of capital funding, including: grants, S106, CIL, Local Growth Fund and European grants. A working group has been set up to develop the process for bidding for CIL and work continues with Districts and Boroughs to maximise the Council's receipt of this limited resource. There continues to be Finance representation at the cross departmental Local Growth Fund Oversight group. A review is underway to strengthen capital programme reporting and project profiling with a view to driving down the amount of slippage within the capital programme. Actions from this review will be implemented across Q2 and Q3.	A
9	WORKFORCE Stress and mental health are currently the top two reasons for sickness absence across the Council, potentially leading to reduced staff wellbeing, reduced service resilience, inability to deliver efficient service and / or reputational issues.	The 2018/19 Q1-3 sickness absence outturn for the whole authority (excluding schools) is 6.37 days lost per FTE, a decrease of 6.4% since the previous year. Although stress/mental health remains the primary reason for absence, time lost due to stress/mental health during this period fell by 8% compared to Q1-3 last year. Interestingly, during that period whilst days lost due to stress have fallen by 21.7%, Mental Health has increased by 26.4% A range of initiatives to address mental health absences have been implemented, including: <ul style="list-style-type: none"> • Training 80 Mental Health First Aiders across the organisation between March – April 2019 • Launching an ESCC Mental Health Awareness Campaign • Managers 'Mental Health Awareness' workshops have now been introduced as part of the corporate training programme. • The Return to Work forms are being developed to include more guidance for managers on mental health conditions such as depression and bi-polar 	A
10	RECRUITMENT Inability to attract high calibre candidates, leading to limited recruitment choices and therefore lack of the expertise, capacity, leadership and/or innovation required to deliver services and service transformation.	An analysis of our current workforce demographics and recruitment and retention 'hotspots' has been completed and has been considered by CMT. Two workstreams have been agreed of 'attracting and recruiting the future workforce' and 'leading the workforce'. A new e-Recruitment system is due to be implemented during 2019 and work to support this is currently on-going.	A

Ref	Strategic Risks	Risk Control / Response and Post Mitigation RAG score	RAG
6	<p>LOCAL ECONOMIC GROWTH</p> <p>Failure to deliver local economic growth, and failure to maximise opportunities afforded by Government proposal to allocate Local Growth Funding to South East Local Enterprise Partnership, creating adverse reputational and financial impacts.</p>	<p>The County Council and its partners have been successful in securing significant amounts of growth funding totalling £110m, via both the South East and Coast 2 Capital Local Enterprise Partnerships, to deliver a wide range of infrastructure projects in East Sussex. We have also secured outgoing EU funding for complementary economic development programmes supporting businesses to grow, including South East Business Boost, LoCASE, SECCADS and inward investment services for the county.</p> <p>The County Council is working with Wealden DC and developing a business case to secure Housing Infrastructure Funding (HIF) of approximately £30m. It will be submitted by March 2019. The aim is to accelerate housing development in Wealden, with the proposal if successful helping to unlock significant funding for county transport and school infrastructure improvements in one of our key Growth Corridors. The business case will also include an environmental mitigation package in recognition of the impact on the Ashdown Forest.</p> <p>Government is working on a new Shared Prosperity Fund, which seeks to combine growth funding and outgoing EU funding into one, and as a consequence we are working with partners to develop a pipeline of projects to ensure we are well-placed to capitalise when the fund is released, and calls for projects are issued.</p> <p>Government has also instigated a review of LEPs across the country, and we have contributed to the SE LEP response to Government to ask that the current SE LEP geography be retained.</p>	G

This page is intentionally left blank

Audit Committee – Work Programme

List of Suggested Potential Future Work Topics		
Issue	Detail	Meeting Date
To be agreed		
Audit Committee Working Groups		
Working Group Title	Subject area	Meeting Dates
To be agreed.		
Training and Development		
Title of Training/Briefing	Detail	Date
External Audit Plan	A briefing by the Council's External Auditors, Grant Thornton, on the audit process for the Council's accounts for 2018/19 and the content of the External Audit Plan.	25 March 2019

Future Committee Agenda Items		Author
All meetings		
Internal Audit Progress Report	Quarterly report which provides a summary of the audits and opinions carried out in that quarter; counter fraud and investigations, follow up work on audits and high risk recommendations and performance monitoring against the Internal Audit Plan	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Strategic Risk Monitoring	Quarterly monitoring report of the Council's Strategic Risk Register	Cath Edwards, Service Improvement and Risk Manager

Committee Work Programme	Discussion of the future reports, agenda items and other work to be undertaken by the Committee.	Senior Democratic Services Advisor
12 July 2019		
Internal Audit Services Annual Report and Opinion 2018/19	An overall opinion on the Council's framework of internal control, summarises the main audit findings and performance against key indicators (includes Internal Audit Progress report – Quarter 4, 2018/19, (01/01/19 – 31/03/19).	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Monitoring Officer's Annual Review of the Corporate Governance Framework	Sets out an assessment of the effectiveness of the Council's governance arrangements and includes an improvement plan for the coming year, and the annual governance statement (AGS) which will form part of the statement of accounts.	Philip Baker, Assistant Chief Executive
Review of Annual Governance Report & 2018/19 Statement of Accounts	Report of the external auditors following their audit of the Council's statutory accounts. It allows the committee to review the issues raised and assess the management response.	External Auditors/ Ian Gutsell, Chief Finance Officer
Review of Pension Fund Annual Governance Report & 2018/19 Statement of Accounts	Report of the external auditors following their audit of the Pension Fund. It allows the committee to review the issues raised and assess the management response.	External Auditors/ Ian Gutsell, Chief Finance Officer
Strategic Risk Monitoring	Strategic risk monitoring report – Quarter 4, 2018/19 (01/01/19 – 31/03/19)	Kevin Foster, Chief Operating Officer / Ian Gutsell, Chief Finance Officer

13 September 2019		
Internal Audit Progress Report	Internal Audit Progress report – Quarter 1, 2019/20 (01/04/19 – 30/06/19)	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Strategic Risk Management	Strategic risk monitoring report – Quarter 1, 2019/20 (01/04/19 – 30/06/19)	Kevin Foster, Chief Operating Officer / Ian Gutsell, Chief Finance Officer
22 November 2019		
Internal Audit Progress Report	Internal Audit Progress report – Quarter 2, 2019/20 (01/07/19 – 30/09/19)	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Strategic Risk Management	Strategic risk monitoring report – Quarter 2, 2019/20 (01/07/19 – 30/09/19)	Kevin Foster, Chief Operating Officer / Ian Gutsell, Chief Finance Officer
Annual Audit Letter	To consider the Annual Audit letter and fee update from the External Auditor	Ian Gutsell, Chief Finance Officer
Treasury Management	To consider a report on the review of Treasury Management performance for 2018/19 and for outturn for the first six months of 2019/20, including the economic factors affecting performance, the Prudential Indicators and compliance with the limits set within the Treasury Management Strategy.	Ian Gutsell, Chief Finance Officer
Property Asset Disposal and Investment Strategy	Consideration of an annual report on the implementation of the Property Asset Disposal and Investment Strategy.	Tina Glen, Head of Property Operations / Graham Glenn, Acquisition & Disposals Manager

This page is intentionally left blank